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Published by
the U.S. Chamber of Commerce
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MANAGING YOUR BUSINESS

A merger can make everyone happy, as Perry Rosenthal discovered. (Cover Story, Page 30)



PHOTO: RICHARD HOWARD

30 Cover Story: Mergers Made In Heaven

Nation's Business asked a number of companies with successful mergers to their credit to share their secrets. Effective mergers involving smaller companies, they report, call for a variety of tactics and strategies that focus on the employees whose talent and commitment will determine whether the new team clicks. Also:

- 34 *Selling Your Business: Frequently Asked Questions*
- 35 *Seller's Remorse*

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Significant numbers of small-business people are joining the angry chorus of taxpayers who feel the IRS's strong-arm collection tactics should be curbed.

When all else fails, dream about a problem, and the answer may be just what you need. (Page 72)



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What are small retailers coming up with to entice holiday shoppers?

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The champion of family businesses faces his own mortality and the need to preserve his vision.

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Problems can yield to dreamed solutions.

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"No matter how complicated a problem is," writes An Wang, "it usually can be reduced to a simple, comprehensible form which is often the best solution."

DEPARTMENTS

Looking for a safe investment? We thought so. You may already have one in the attic. (Page 84)



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Cover Design: Michael Bierut—Vignelli Associates
Illustration: Victor Johasz

Nation's Business (ISSN 0098-0470) is published monthly at 1615 H Street, N.W., Washington, D.C. 20062. Advertising sales headquarters: 711 Third Ave., New York, N.Y. 10017. Tel. (212) 370-1440. Copyright © 1987 by the United States Chamber of Commerce. All rights reserved. Subscription prices (United States and possessions): one year, \$22; two years, \$35; three years, \$46; and in combination with the newspaper *The Business Advocate*, one year, \$50; two years, \$65; three years, \$90. Printed in U.S.A. Second-class postage paid at Washington, D.C., and additional mailing offices. Postmaster: Please send form 3579 to 4940 Nicholson Court, Kensington, Md. 20885. Subscriber Service: 1-800-638-6582 (in Maryland, 1-800-355-1450).

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*Model 25 has one full-size and one eight-inch expansion slot.



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A Second-Rate Power?

By Paul Choquette, Jr.

It's time to recognize an unpleasant reality. The United States, for all its economic and military strength, is just a second-rate power when it comes to initiatives in basic education and retraining.

And, as we move toward the 21st century with a declining birth rate and an aging employee population, this second-rate status threatens to undermine our ability to compete in the world marketplace.

The solution will not be found in new government programs. It will be found in the willingness of the private sector to intervene in areas that traditionally

Our students in those 12th-grade courses are just barely ahead of the typical 12th grader in Thailand. That is because these two Asian countries develop their school curricula with the needs of high-technology industries in mind.

Singapore, a country that was having difficulty feeding its people 15 years ago, today has a literacy rate approaching the United States'. The government has developed a comprehensive economic program to attract industry, including the establishment of research institutes to tailor the skills of the work force to the industries being courted.

for our six-state region. The Council, an association of 1,300 firms employing more than 1 million people, will use data from human-resource specialists and strategic planners in the private sector to forecast future manpower needs.

We will then work with the education community to determine what kinds of course offerings and degree programs will prepare students for those jobs.

A second area in which the private sector should take the lead is establishing remedial teaching programs in the workplace. Studies show that 20 to 30 percent of the adults enrolled in job-training programs actually need remedial instruction in reading and math. Horror stories abound in which companies have found their on-the-job-training efforts stymied when many workers are unable to read basic manuals and do simple arithmetic.

The business community is ideally positioned to tackle this problem. Through questionnaires or skill surveys, companies could pinpoint employee needs in reading, math and other basic skills. These surveys would obviously have to be packaged in a non-threatening way and be sensitively handled. Once the needs are identified, employers could then work with our community colleges to offer training in basic skills. Sending employees to community colleges could help remove some of the stigma of remedial education. Employers could also offer incentives to their workers to participate such as time off for course work and bonuses for those who complete the program.

These are just two areas in which the private sector has an opportunity to play a more aggressive role. The choice is ours. We can sit back, mired in our conventional wisdom, and argue that it should not be the job of private industry to set educational policy or to teach people how to read and write.

Or we can deal with reality. And the reality is that the private sector needs a literate, skilled work force in order to be competitive in the world marketplace. It's time for the private sector to take on a larger share of responsibility for that training task. ■

If we are to stay competitive, we cannot allow developing countries to offer both a lower wage and a more skilled, more literate work force than the United States.



have been viewed as the domain of the public sector—areas such as teaching basic skills and designing school curricula that complement industry's personnel needs.

The fundamental problem is not that our literacy skills are slipping. It's that literacy demands are increasing dramatically in a global market. And the key players in this market are the developing countries, where literacy and job training are integral to their national economic strategies.

The stakes are very high. If we are to stay competitive, we cannot allow developing countries to offer both a lower wage and a more skilled, more literate work force than the United States.

Is this an overreaction? Let's look at some examples. In 8th-grade geometry and in 12th-grade algebra and elementary calculus, our average American student's skill level is behind that of students in those grades in Hong Kong.

Paul J. Choquette, Jr., president of the Gilbane Building Company, Providence, R.I., is chairman of The New England Council.

The lessons from overseas are clear. Other countries are creatively harnessing a power that we in the United States are not: the power of human capital to drive economic growth. To preserve our standard of living in a world where other people are working for one or two dollars an hour, our people are going to have to work smarter.

The logical place for those of us in the private sector to look for solutions is in the mirror. Business must begin to play a more assertive role in shaping the skills of our work force.

One way is for the private sector to establish a mechanism for forecasting its personnel needs and then to transmit that information to the people who design our school curricula at all levels. We need to plug business into curriculum development to ensure that our schools are training today's people for tomorrow's jobs.

Perhaps the most likely players to take on this role are the statewide and regional business associations.

The group that I chair, The New England Council, has recently begun work on establishing such a clearinghouse

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Dom J. Acosta
AT&T Occupational Planning Engineer
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COMMENTARY

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Letters

Attention To Detail

Thank you for the article by Sharon Nelton, "Little Things Mean A Lot" [October]. To all that she said and how she said it, I say "Amen!"

I run a small business that includes various products and services. I could write a book on irresponsible manufacturing and business practices.

I feel I owe my customers every respect—whether it is in how I treat them or what I do for them.

Fran Webber

Lacey's Spring, Ala.

As a restaurant owner, I know only too well what little things mean to our customers. Most of my waitresses know, too—it shows in their tips. The extra cream for a customer's coffee, the dressing on the side for a salad, substituting a dish for one that didn't meet the customer's satisfaction—all these done with courtesy, consideration and without complaint make the day a little brighter.

Your article also prompted me to write a letter that I had been putting off, a letter to a company with whose product I was not pleased.

Doris Martin

New Holland, Pa.

My 1980 automobile recently decided to quit. It was towed to the local dealer for evaluation. The most expensive component under the hood, the fuel-metering assembly, had failed and required replacement. After discussing the specified procedure with the service manager and studying the parts manual, I was satisfied that replacement was the only avenue open to me. Ten days and \$831.42 later, my car was fixed.

Out of curiosity, I had asked the service manager to save the old part for me. I disassembled it at home, but could find no defect. I did find a pressure-regulating screw had turned itself into a bottom stop. So I reversed the screw several turns and put the device back together using a little petroleum jelly on the old gasket. The following day I re-installed the original in my car.

You guessed it: My car now has 1,500

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miles on it since my repair and seems to be getting slightly better gas mileage.

I have written letters to the dealer, the company president and the zone manager, and the only response I've received is an oral invitation from the service manager *not* to return to his shop, as my business is no longer desired there. Alas, I thought that prerogative was mine.

I suspect one day I'll be invited back and even be given the red-carpet treatment. But until then, I'll have to content myself with an active calendar of daily correspondence.

Peter C. Miller

Wytheville, Va.

Alaskan Oil Exploration

Recently you asked for your readers' opinions on searching for oil in the Arctic National Wildlife Refuge (ANWR) [Where I Stand, October]. A few pages away [Congressional Alert] you said that the ANWR "may contain more oil and gas than any other onshore U.S. area." You owe your readers a better balanced description of the issue.

Congress required an Interior Department report before considering whether to open the refuge to oil exploration. The report says that oil-recovery estimates depend upon the occurrence of at least one economically recoverable oil accumulation in the area, "the probability of which is about 19 percent."

The report also assumes a world oil price (adjusted for inflation between now and the end of the century) of \$33 per barrel. The current price is \$19 per barrel. Recovering the oil, assuming there is any oil to recover, doesn't sound like a good economic decision.

As for the environmental results, this same report warns of a "major population decline in the caribou herd." Besides caribou, the refuge is home to grizzlies, polar bears, musk-oxen, wolves, snow geese, golden eagles, peregrine falcons and more. Aside from disturbing wildlife, there will be air pollution and water pollution resulting from recovery efforts.

How can you promote "unobtrusively tapping the refuge's vast energy-production potential" when the Interior Department estimates an 81 percent chance that there is not an economically recoverable oil field?

Randy Gann

Tulsa

May I Ask A Personal Question?

Harry Bacas in his article "Hiring The Best" [October] ran a list of certain

The southern California guide to lower heating bills.



1. Close up shop and find your place in the sun.



2. Buy a Woolly Mammoth coat and a matching bomber cap.



3. Rent a fire-breathing dragon for the winter.



4. Or install a new energy efficient gas furnace.

There are countless ways to lower your heating bills. Some, a little more practical than others, perhaps. Of course, installing a new gas furnace may not be the most glamorous way to go. But gas is hands down, the best way to heat your business and your home. Because energy savings begin with gas.

So this year, plan ahead. Install a pilotless, energy efficient, gas furnace before the weather gets cold. Contact a local heating contractor for more details.

And lower your heating bills. Without lowering your heat.

Serving you with the right kind of energy.



Southern California Gas Company

questions that shouldn't be asked in a job interview if one wants to avoid creating grounds for a discrimination suit.

Then he quotes Filomena Mullis as preferring to hire a mature single woman "rather than a younger married woman who might have to leave town if her husband is transferred."

I can only wonder how Ms. Mullis finds out these personal details regarding "stability" without creating possible grounds for a suit.

*Terry Arnold
Azle, Tex.*

The Flip Side Of MSG

I must take exception to Julie M. Wilgus' letter defending the use of monosodium glutamate [Letters, October].

Food additives, preservatives and certain foods themselves can trigger headaches. My migraines are brought on when I eat the smallest amount of any of the items you mentioned in your article [To Your Health, July]: MSG, caffeine, nitrates, aged cheeses, yeast or aspartame.

With the help of an allergist, I have discovered that I am indeed highly allergic to MSG. The reaction I get is an intense migraine headache. I have been forced to become a label reader before I purchase any foodstuff from the grocery or ingest any food. If I can't read the label, I don't eat the food. Recently, I unknowingly ate some barbecue sauce made from a mix that contained MSG, and I suffered with a migraine that lasted two days.

*Saundra L. Palmer
Louisville, Ky.*

Death Or Rebirth Of A Business?

"The Battle Over A Plant-Closing Bill" [October] is a classic example of the half-empty/half-full debate. The Democrats and labor unions push plant-closing legislation because they see closings as signs of decay when in fact they are healthy prerequisites for renewal.

We have always had lots of plant closings. Indeed, in a dynamic economy, they are as much a part of the economic landscape as are plant openings. The fundamental premise of growing, progressive capitalism is that it "creatively destroys" old industries even as it generates new ones.

Prof. Richard McKenzie of Clemson University and the Center for the Study of American Business has reported evidence that worker dislocation is no more severe today than it was 10, 20 or 30 years ago.

His report was confirmed by a study

put out by the U.S. Labor Department in July, 1986, entitled "Sectoral Changes in Employment Due to Plant Closings and Openings." It showed, for example, that the booming Pacific states actually had a higher rate of plant closings per million population than such states as Michigan, Ohio and Illinois and only a slightly lower rate of job losses per million from such closings (20,701 vs. 23,684).

Yet new growth in the Pacific area was nearly four times that of the Rust Belt states mentioned. The study confirmed that growth did not occur because of movement from one region to another; virtually all growth was indigenous.

*Daniel John Sobieski
Chicago*

A Woman's Place Is In New York

Nation's Business has devoted several pages and articles to women in business in the past few issues. An article in the August issue ["Businesswomen: Equal But Different"] mentions that there are 3,000 members of the National Association of Women Business Owners and that women own 25 percent of all small businesses in the United States. Pretty impressive numbers.

I live in Seneca Falls, N.Y., home to the National Women's Hall of Fame and the Women's Rights National Historical Park. This is a fine upstate, rural community with an excellent quality of life, good work ethic and adequate labor market. We are located in the center of the Rochester-Syracuse-Ithaca triangle, which puts us within an hour of these educational and cultural centers.

Wouldn't it be appropriate for some women entrepreneurs or major women's groups to be located here, where the women's movement began?

*Richard J. Compo
President
Seneca County Chamber
of Commerce
Seneca Falls, N.Y.*

Consensus Of Will

The U.S. Constitution ["200 And Going Strong," July] is a comprehensive consensus of the will of the American people, voted on and ratified by the citizens of this nation or their representatives.

Our supposedly durable Constitution is being frittered away by litigants, lawyers and judges who distort its language to maintain arbitrary rulings.

*Dudley E. Brewer
Knoxville, Tenn.*

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The Nation's Business

By Joan C. Szabo

Business Outlook

Measuring Consumer Confidence

Business people trying to plan for next year wonder most about how the tumultuous developments in the financial markets in recent weeks will affect consumer spending.

That spending accounts for two thirds of the gross national product, and it has been a major force in the economic recovery now in its sixth year.

A significant drop in consumer buying could turn the present uncertainty into a recession—or worse.

But early reports indicate that, while the stock market decline that began October 19 is curbing consumer confidence and demand could drop, there is no sign of the massive fall in spending that some commentators said might occur in view of the huge initial losses suffered by investors—nearly \$1 trillion over two months.

Two respected surveys taken after the drop on Wall Street indicate that consumer confidence has dipped but is not so battered that a recession is imminent.

The Conference Board, a nonprofit organization that conducts research on business and economics, reports that its Consumer Confidence Index fell to 110.4 after the stock market drop. That was down from the 116.9 registered during the first two weeks of October. The survey uses 1986 as a base of 100.

The Conference Board notes that this most recent change was relatively moderate compared to the precipitous drop triggered by the 1973 oil crisis. The index declined by a third at that time.

Almost 73 percent of those surveyed in the most recent poll said the stock market turmoil won't affect their plans to buy autos, furniture or other major items.

Fabian Linden, executive director of the Conference Board's Consumer Research Center, says that, although "consumers will be cautious about spending after the market's plunge," confidence is continuing at high levels.

The latest economic confidence index



PHOTO: T. MICHAEL KEZA

prepared by Sindlinger & Company dropped from 137.8 before the crash to 128.1 afterward. The latter is significantly higher, however, than the index of 102.4 last April and 112 a year ago.

The picture was not so bright when stockholders were singled out. Their pre-crash index was 127, and it fell to 114 after the October 19 drop on Wall Street. The index uses a 1957-59 base of 100.

While the drop in confidence among stock owners can be more significant because they are more likely to make big-ticket purchases, Sindlinger agrees that confidence levels haven't fallen to levels that have historically signaled the onset of a recession.

The company is headed by Albert E. Sindlinger, who has been doing consumer research for 33 years.

David Wyss, chief financial economist of Data Resources in Lexington, Mass., takes a more bearish attitude toward consumer intentions. He warns that unless the stock market recovers strongly and remains stable for an appreciable time, October's plunge will cause a cutback in spending.

"The consumer sector was already lagging before the market took a dive. Now consumers are likely to pull in their horns more," says Wyss. He nevertheless sees some growth, although at a sharply reduced rate.

Paul Getman, senior financial economist with Chase Econometrics in Bala Cynwyd, Pa., also expects consumer spending to slow further next year. He looks for a 1.2 percent pickup, following a rise of 2.5 percent in 1987.

Despite the disappointing consumer spending outlook, there are some encouraging signs, experts say.

One of them is capital spending. Wyss believes that "business spending will keep the economy growing," albeit at "a sluggish pace." Getman agrees: "A healthy pickup in plant and equipment spending due to an improving export picture will help the United States avoid a recession."

Tax Developments Ahead

Economists are also looking to the next round of cuts in federal income-tax rates to help buttress consumer demand. On January 1, the top rate on personal income taxes drops to 33 percent from this year's 38.5 percent. It was 50 percent up to last year.

The 1987 and 1988 reductions are part of the sweeping Tax Reform Act passed in late 1986. Next year's cuts are expected to give consumers an additional \$41 billion in after-tax income.

That saving will be somewhat offset by increases in Social Security taxes. Under a bipartisan plan developed in 1983 to keep the system solvent, the Social Security tax rate will go up January 1 to 7.51 percent from the current 7.15. At the same time the maximum amount of earnings to which the tax is applied will be increased from \$43,800 to \$45,000.

As a result of those changes, the maximum tax paid by a worker and matched by the employer will go from \$3,131.70 this year to \$3,379.50 next year. ■

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Small Business Report

Heeding Equal Access

A 6-year-old federal law that could be extremely helpful to small-business owners needs higher visibility, says the Small Business Council of the U.S. Chamber of Commerce.

The law is the Equal Access to Justice Act, which took effect in 1981. It is designed to discourage federal agencies from making unwarranted tax and regulatory rulings. Members of the Chamber's Small Business Council decided at a recent meeting to use various avenues of communication to make sure that smaller firms are aware of the provisions of the equal-access law.

Under the statute, small-business people can petition to recover legal fees they have incurred in successfully defending themselves against legal actions brought by federal agencies, with the exception of the Internal Revenue Service. The law applies to lawsuits that go to court and to regulatory proceedings in which the small-business person runs up legal expenses.

In response to a small-business petition for payment of legal costs, the federal agency has an opportunity to demonstrate that its actions were reasonable under the circumstances. If the agency can do so, it is not required to pay the legal fees.

Raymond "Tim" Wittig, a Washington attorney, says: "The aim of the law is to put the federal government and small-business owners on a more equal footing."

The law was passed in response to complaints of small-business people that they often found it cheaper to accept penalties or other adverse actions by federal agencies than to incur heavy legal expenses defending themselves.

Although the Chamber council is concerned that small business generally might not be sufficiently aware of the protections afforded by the act, there have also been complaints that it has not received sufficient recognition from the federal agencies it was designed to curb. Small-business owner Robert E. Laughlin says his own experience has shown him that "some federal officials are paying little attention to the statute."

Laughlin is one of the owners of Western Food Equipment Company, a

Small-business owner Robert Laughlin says his own experiences show that some federal officials are not heeding the Equal Access to Justice Act.



PHOTO: T. MICHAEL KEZA

wholesale distributorship in Portland, Ore. His company is involved in two legal disputes with the Federal Deposit Insurance Corporation.

In talking with agency officials, Laughlin says he asked if they were aware of the Equal Access to Justice Act, and their puzzled response was: "Is it an organization?"

Even though Laughlin is close to settling the disputes, he says, "What do we do about the \$7,000 we owe for legal advice? We don't have an in-house attorney. We don't have a budget for those kinds of expenses."

Donald C. Berno, acting director of the Small Business Center of the U.S.

Chamber of Commerce, which was a prime mover in passage of the act, says it is unclear how responsive federal agencies as a whole are to the implications of the statute.

But, he says, "some federal agencies are actually behaving by not making unwarranted rulings because they know that the Equal Access to Justice law is in effect."

Venture Funds For Smalls

Encouraging the private sector to provide necessary venture capital for small business is the aim of legislation recently introduced by Rep. John LaFalce (D-N.Y.) and Rep. Joseph M. McDade (R-Pa.), chairman and senior minority member, respectively, of the House Small Business Committee.

HR 3392 would establish a federally chartered but privately owned Corporation for Small Business Investment (COSBI). The corporation would serve as a capital bank to provide funds that small-business investment companies (SBICs) and minority-enterprise small-business investment companies (MESBICs) would funnel to small businesses through stock purchases or direct loans.

SBICs and MESBICs get their initial capital from private investors. In the past, they were able to leverage that capital by borrowing up to \$4 from the Federal Financing Bank for every \$1 in private funds. But in 1986, the bank lost its authority to make further loans to SBICs and MESBICs.

The proposed legislation would provide a new source of leveraged money to the companies.

The House Small Business Committee plans to hold hearings on the legislation. ■



The Internal Revenue Service plans to expand its electronic filing program and start accepting additional business tax forms by computer in 1988.

A company wishing to file elec-

tronically must meet IRS requirements. For additional information, contact your local IRS district office.

To help firms comply with the Consolidated Omnibus Budget Reconciliation Act's requirements on health insurance, there's a new software package—"Kid COBRA"—available.

The easy-to-use software package registers, processes, bills, posts payments and determines eligibility. Write Methods Development Inc., 431 Carlisle Dr., Herndon, Va. 22070.

Washington Roundup

Urgency On The Deficit

"Depend on it, sir. When a man knows he is to be hanged in a fortnight, it concentrates his mind wonderfully."

Those words of Samuel Johnson have a certain application in Washington these days.

The specter of recession or even depression raised by the October 19 collapse of stock prices and the ensuing turmoil shocked government leaders into a heightened realization of the impact of their actions—or lack of action—on the economy.

Would the record sell-off of stocks trigger a massive cutback in consumer demand, which would be followed by plant closings and high unemployment? The answers were not immediately apparent, but the sudden fear of such events certainly concentrated wonderfully the minds of decision makers in the capital.

Within a week, congressional leaders and representatives of President Reagan were deep in negotiations on ways to slash the federal budget deficit, which had been cited as one of the major factors in the stock-price plunge. The swift action followed months of slow-moving activity, including sharply partisan bickering against the backdrop of a presidential-election campaign, to develop a 1987-88 budget plan that both President Reagan and Congress would support.

Because the federal government must borrow to finance the deficit, financial markets have become concerned that higher interest rates would be needed to continue attracting sufficient lenders to keep underwriting that debt. Those same rates, the markets feared, would dampen or even halt the recovery that has just entered its sixth year.

In the wreckage following the October 19 drop of more than 500 points in the Dow Jones Industrial Average, business leaders were almost unanimous in their call for a signal that Washington would no longer tolerate massive deficits as a routine part of federal fiscal planning.

It was in response to that call that President Reagan and the Democratic congressional leadership agreed to

Congressional leaders leave the White House after talks with President Reagan on ways to trim the federal deficit.



PHOTO: CATHERINE CURTIS—THE WASHINGTON TIMES

start talking. While the immediate goal was a \$23-billion deficit reduction to meet the terms of the Gramm-Rudman-Hollings Act, some lawmakers said a much higher reduction was needed to show that the federal government was serious about getting its own fiscal affairs in order.

Rep. Dan Rostenkowski (D-Ill.), chairman of the House Ways and Means Committee, said: "Investors... are not looking for miracles or excuses. They are looking for leadership and honesty. A real budget compromise would be a signal that we are finally ready to meet our responsibilities."

Tax Hike Is Not The Answer

Leading business and consumer groups have launched a counterattack against tax increases as a quick fix for the budget deficit. Richard Rahn, vice president/chief economist of the U.S. Chamber of Commerce and a principal spokesman for the anti-tax forces, says a tax increase would not only slow economic growth but could also increase the deficit.

He recalls an earlier experience in which Congress pledged spending cuts at the same time it was raising taxes. "The Tax Equity and Fiscal Responsibility Act of 1982," Rahn says, "promised \$3 of spending reduction for \$1 of tax increase. The actual results were \$1.26 of spending increases for \$1 of tax increase."

Rahn urges a modified spending freeze that would cover defense budget authority, nondefense discretionary-

spending authority and some entitlement programs (excluding Social Security and assistance to low-income programs). Such a freeze would generate \$18 billion in deficit reduction, he says.

A reduction in the capital-gains tax would raise \$4 billion to \$8 billion in new revenues by stimulating investment, Rahn says. New or higher fees paid by individuals using federally subsidized services could raise another \$4 billion, and the privatization of some federal activities and the sale of some financial assets, another \$9 billion.

The freeze approach to the deficit problem would generate \$35 billion to \$39 billion in deficit reduction—a sum well above the \$23 billion cut mandated by the Gramm-Rudman-Hollings law for fiscal 1988.

In addition to the U.S. Chamber, members of the anti-tax group are Citizens for a Sound Economy, the National Association of Manufacturers, the National Taxpayers Union, the National Federation of Independent Business and the American Farm Bureau Federation.

Passing Prompt Pay

By a unanimous vote, the Senate recently passed the Prompt Payments Act Amendments of 1987, which would close loopholes in the statute designed to require Uncle Sam to pay his bills on time.

Under the original law, the government must pay bills within 30 days or face an interest penalty.

Current law authorizes an additional

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THE NATION'S BUSINESS

Washington Roundup

15 days under certain conditions, but critics say government agencies have been using that provision as a loophole.

A recent General Accounting Office report indicated that 25 percent of the government's bills are not paid on time, use of the grace period has become routine, and late payments don't include interest.

The Senate bill eliminates the 15-day period that agencies used to stretch the payment-due date from 30 to 45 days and forces agencies that deliberately skip paying interest penalties on overdue accounts to pay twice the penalty if the company complains.

The bill also includes important incentives for federal contractors to speed payment to subcontractors within seven days.

A similar bill in the House is expected to clear before Congress adjourns.

Quotable

"In the industrial age, the CEO sat at the top of a hierarchy and didn't really have to listen to anybody. He made all of the decisions. In the information age, you have to listen to ideas of people regardless of where they are in the organization, because we are looking at a network as a metaphor, not a hierarchy."

—John Sculley, CEO of Apple Computer, Inc., on a "CEO Close-Up" interview on "Nation's Business Today," the weekday business-news program produced by the U.S. Chamber of Commerce.

"If you can create a bond of trust and a sense of ownership, you have an incredible force. It is a fact of life that people don't hurt things that they own."

—Jack F. Reichert, president and CEO, Brunswick Corporation, Skokie, Ill., on paring down the firm's operations and increasing productivity after a hostile takeover attempt. From a "CEO Close-Up" interview on "Nation's Business Today."

"My wife is in the hospital having surgery; my kids are at home. What am I doing here at 5:30 in the morning, printing? What is happening with my life? Why me, Lord? I'm just trying to be an entrepreneur. Football was easy compared to this."

—Perry Brooks, a former Washington Redskins defensive lineman, on running a print shop, as reported in the Washington Post. **B**

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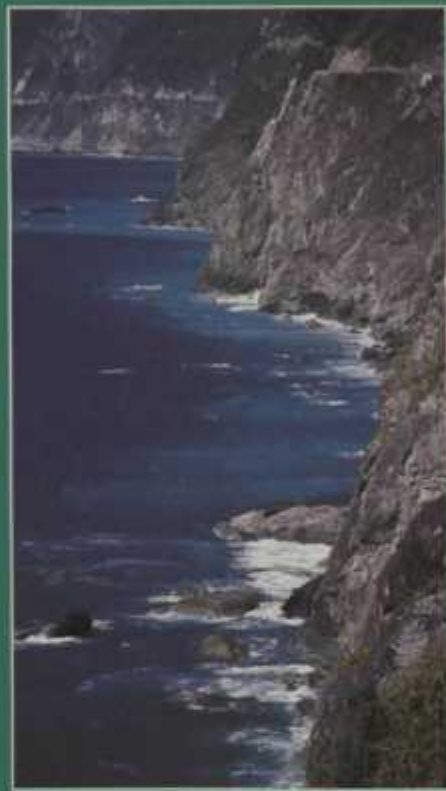
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Island Of Trade Opportunity



When the Kuomintang government withdrew to Taiwan in late 1949 following the Communist takeover of the mainland, the island's future looked bleak at best. Inflation was rampant, unemployment was high, production was down sharply, the government had no funds, and natural resources were limited.

The Nationalist government, led by the late President Chiang Kai-shek, saw the urgent need for drastic change if his government was to survive and the island was to resist Chinese Communist forces that were threatening to overrun the island. The Nationalists, with economic and military assistance from the United States, embarked on a program of economic and political reforms that would later turn the small agrarian island into one of the fastest growing economies in the world.

In the early 1950s, the Republic of China (R.O.C.), like other developing nations, followed a policy of promoting domestic, import-substituting industries by means of protective tariffs and import quotas. The exchange rate was also kept undervalued in the hope this would keep prices stable. This policy resulted in trade deficits and a serious shortage of foreign exchange, and in the late 1950s, as the limited domestic market became saturated, economists persuaded the government to devalue the local currency and switch to a policy of promoting exports.

By 1965, U.S. aid, which had averaged \$100 million (U.S.) annually since 1951, had come to an end as the economy began to take off. Just three years later the trade balance, which previously had been in favor of the United States, began to tilt in favor of the R.O.C. Since then, two-way trade between the United States and the R.O.C. has risen sharply, from \$270 million in 1965 to \$24.4 billion in 1986.

Today, the tiny island, one third the size of Virginia, has become the 14th largest trading nation in the world, with global trade in 1986 reaching a record-high \$64

On the cover (clockwise, from top left): An opera student from a dramatic arts school in Taipei; a pagoda in Taipei's New Park; East Coast Highway; a street scene in Taipei.

At left: Flags of the Republic of China billow in the breeze outside Chiang Kai-shek Memorial Hall in Taipei.

ON COVER, PHOTOS: RICHARD STEEDMAN—THE STOCK MARKET; DAVID RYAN, BILL WASSMAN—THE STOCK MARKET; PHOTO ABOVE: DAVID RYAN



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Taiwan has introduced significant tariff reductions on a range of products, from basic industrial materials to musical instruments to

farm products. These tea-plantation workers join other Taiwanese to make the country the third largest buyer of U.S. agricultural products.

billion and current foreign-exchange reserves of more than \$68 billion.

However, the R.O.C. may have become too successful. America's huge trade deficit has led to strong protectionist sentiment in the United States, with calls for import quotas and restrictions growing stronger.

The politically isolated island, which has traditionally relied on the United States, sends almost 50 percent of its exports to America, placing it in an extremely vulnerable position. With a \$15.7 billion surplus in trade with the United States last year, and critics citing trade protectionism in the R.O.C., the country has become the No. 2 target, after Japan, in the war to reduce America's ballooning trade deficit.

However, simple statistics do not accurately explain the whole trade picture. First, the two countries are at different stages of industrial development. The R.O.C. enjoys a comparative advantage in producing labor-intensive goods that the United States cannot produce economically. Were these products to be kept out of the U.S. market, American producers



PHOTO: HARVEY LLOYD—PETER ARNOLD, INC.

would not benefit, and the overall U.S. trade deficit would not be changed. Other countries, such as South Korea, Singapore and mainland China, would replace the R.O.C. as suppliers, thereby only shifting the source of the deficit. And if the United States chose to limit imports from all such countries, the result would be higher priced goods for American consumers.

Furthermore, though Japanese products compete directly with those of U.S. manufacturers, R.O.C. products do not. Very few of the island's manufacturers export proprietary products to the United States. In 1986, 75 percent of Taipei's exports to America were products sold under U.S. brand names. Schwinn, the American bicycle producer, imports 1 million bicycles a

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year from Giant Manufacturing in the R.O.C. This accounts for 70 percent of Schwinn's sales in the United States.

Another little known point is that a significant portion of Taipei's trade surplus with Washington can be attributed to U.S. firms manufacturing in the R.O.C. It is estimated that 15 to 20 percent of the \$15.7 billion surplus in 1986 can be attributed to imports to the United States by American manufacturers in the R.O.C.

Attracted by the island's low labor costs and high investment returns, a large number of foreign firms, such as General Electric, Texas Instruments, General Instrument, Atari, TRW and Mattel, have established factories there, using the R.O.C. as a base for exporting around the world. "If we had to rely on local parts, prices would be much higher in the United States," says James Klein, president of General Instrument of Taiwan. "If we weren't offshore, we couldn't compete with the Japanese worldwide."

The trade imbalance is also distorted by things that are not included in the trade figures, such as \$700 million annually in military sales to the R.O.C., profits of American banks and other service-oriented industries and a sizable amount of U.S. exports that come into the island via Japanese trading companies.

Another important factor is the difference in the sizes of the markets in the two countries. The U.S. market is 10 times larger than the R.O.C. market.

Despite the small size of the R.O.C. market, each citizen spent \$247—approximately 7 percent of his or her income—buying U.S. products in 1985. The typical U.S. consumer, however, spent only \$64, or less than 0.5 percent of his or her income, on goods imported from the R.O.C.

Although U.S. products were virtually kept out of the local market in the past because of import tariffs, trade barriers and an undervalued currency that made them too expensive, Taipei's trade-liberalization program, launched three years ago by President Chiang Ching-kuo, is moving full speed ahead.

"The R.O.C. very much appreciates its trade relations with the United States and recognizes that trade has to be a two-way street," says Vincent Siew, director general of the Board of Foreign Trade (BOFT). "We would like to cooperate wholeheartedly with the United States to rectify the trade problem."

Despite efforts by the R.O.C. government to create a fairer trading environment and close the trade gap, pressure from the United States has not subsided, and mis-



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Attracted by the island's low labor costs and high investment returns, a large number of foreign firms, such as General Electric, Texas Instruments, General Instrument,

Atari, TRW and Mattel, have established factories in Taiwan, using the R.O.C. as a base for exporting around the world.

perceptions about the R.O.C. have not been dispelled.

In recent years import tariffs in the R.O.C. have tumbled, and many restrictions have been eliminated. The average effective tariff rate has been reduced from 11.4 percent in 1974 to 7.25 percent in 1987 and is expected to drop to 5 percent by 1990. Although customs duties accounted for 24 percent of the national budget in 1979, this figure was reduced to less than 14 percent in 1987.

Furthermore, the R.O.C.'s highest tariff rate now stands at 58 percent, a decrease of almost 18 percentage points since 1985, and it applies only to six items used in the automobile industry. As a result, the island's highest customs duty is now lower than that of South Korea and the European Economic Community and is in line with that of the United States and Japan.

In April, reductions were made on 862 items, including 62 of 66 specifically requested by the United States. Of the total, 499 were reduced by 50 percent, with the average rate of tariff reduction at 37.7 percent. "These cuts were beneficial to the



United States," says Stephen Craven, chief of the commercial unit in the American Institute in Taiwan (AIT), a quasi-government organization that handles U.S. interests in the R.O.C. "Some were so deep that we were caught flat-footed." Most notable was the tariff reduction on textiles, which fell from 60 percent to 30 percent and then to 15 percent.

Reductions on items such as textiles, shoes, hats, chocolate and air conditioners were described by AIT officials in Washington as "significant steps which demonstrate Taiwan's commitment to enhance U.S. export opportunities in its market."

This action was followed in June by tariff reductions on an additional 331 items, including fishery products, home electrical

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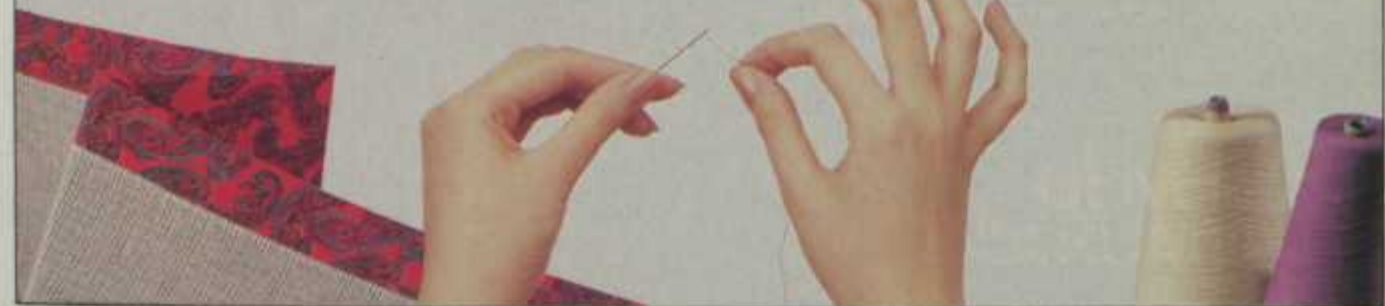
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A marble carver practices his craft in Hualien. The R.O.C. enjoys a comparative advantage in producing labor-intensive goods that the United States cannot produce economically.



PHOTO: DAVID RYAN

appliances, paper products and certain industrial materials. According to the BOFT, significant reductions on another 3,470 items are expected by January, 1988, with the average reduction to exceed 50 percent. If approved by the parliament, the country's highest tariff rate will be further reduced to 50 percent.

Another important change this year was

the revision of the harbor-construction fee. Previously a 4 percent harbor tax was levied on all imports, making these products more expensive. The fee is now equally applied to both imports and exports. The new rate is 0.5 percent on the c.i.f. (cost of insurance and freight) value of imports and 0.5 percent of the f.o.b. (free on board, ie. exclusive of added charges such

as insurance and freight) value of exports, making imported goods now much more competitive in the local market.

Once known as the "pirate capital" of the world, Taipei has made notable progress in its program to improve the protection of intellectual property rights, long a sore spot with American manufacturers. The copyright law, which was amended in 1986, now provides better and longer protection for computer software. Trademark-law amendments implemented in 1983 and 1985 have increased civil penalties, and 1986 amendments to the patent law have improved protection of chemicals.

The government is assigning high priority to enforcing these laws. And measures have been taken to check trademarks of export items in order to reduce the possibility of counterfeit goods being exported.

The National Anti-Counterfeiting Committee, a private organization set up by the Chinese National Federation of Industries, has been working with the government to wipe out counterfeiting and publicize intellectual property rights. In addition, the committee has carried out an island-wide media campaign to convince consumers not to buy counterfeit goods.

Washington has also put pressure on Taipei to appreciate its currency, and the New Taiwan dollar has risen 35 percent since the Group of Five meeting in Tokyo in September, 1985. This sharp appreciation has posed problems for the local economy due to the nature of the business structure here.

Unlike South Korea and Japan, Taiwan has few big conglomerates. In fact, an estimated 98 percent of companies in the R.O.C. are small and medium-sized businesses that are undercapitalized and have low profit margins, making them extremely vulnerable to sharp fluctuations in the exchange rate. These companies account for 65 percent of all exports and 70 percent of employment around the island.

Despite this, the local currency has risen faster than that of other countries enjoying trade surpluses with the United States. Between January and August, 1987, for example, the NT dollar climbed 15.5 percent, compared with 5.6 percent for the German mark, 6.4 percent for the Korean won, 9.3 percent for the Japanese yen, 0.25 percent for the Hong Kong dollar and 2.4 percent for the Singapore dollar. Clearly, Taiwan has been the leader this year in realigning its currency, thereby making U.S. goods cheaper and more competitive in the local market.

The government has expanded banking services over the past two years, and for-

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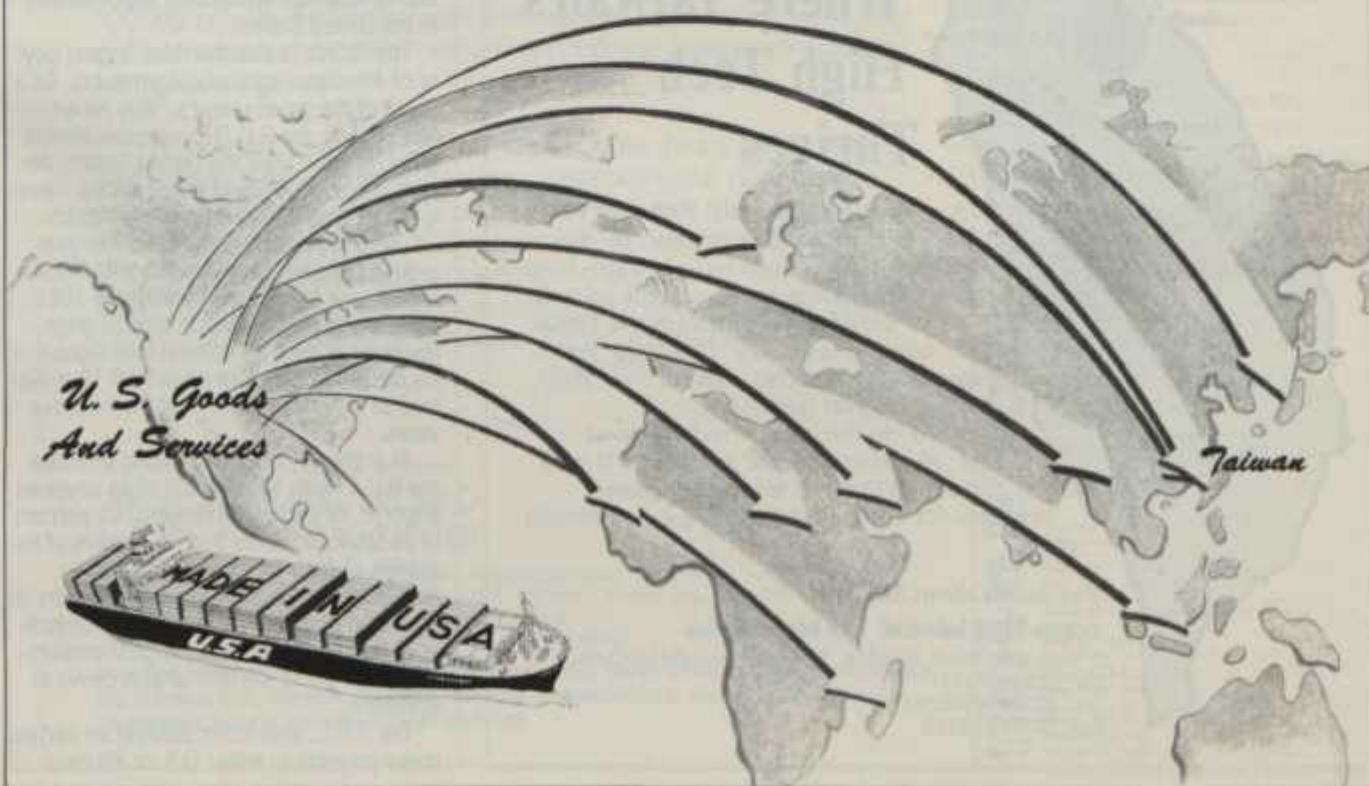
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T A I W A N

Taiwanese workers employed by Chung King prepare bamboo shoots for canning. A little known fact is that a significant portion of Taipei's

trade surplus with Washington can be attributed to U.S. firms manufacturing in the R.O.C.



PHOTO BY BRANDEBURG



foreign banks are now permitted to lend to both individual and commercial real-estate projects. Deposit ceilings have been dropped and banks can now join the United Debit Credit System of the R.O.C., giving them the right to issue debit cards.

U.S. insurance firms were the first foreign insurers allowed to operate in the R.O.C.; currently there are five.

In shipping, the R.O.C. has agreed to allow local branches of American shipping companies to operate as shipping agents, solicit cargo business and run container yards—all areas previously closed to foreign shipping companies.

Furthermore, foreign advertising agencies and consulting firms have now been approved entry, and leading American

fast-food chains have spread throughout the island, including McDonald's, Wendy's, A&W, Kentucky Fried Chicken and Pizza Hut.

On July 15, the government announced the lifting of some of its foreign-exchange controls, in force since 1949, making it easier to get foreign exchange out of Taiwan and somewhat easier to get it in. This will make it less difficult for local businesses to import from abroad.

While more still needs to be done to fully internationalize and liberalize the R.O.C.'s economy, it cannot be denied that barriers are falling day by day, providing a better business environment and more opportunities here for foreign companies.

Since 1978, the R.O.C. has sent 13 buying missions to the United States, purchasing an estimated \$10.4 billion worth of U.S. goods. The most recent mission, which went to the United States in July, 1987, bought large amounts of soybeans, corn, wheat and cotton, boilers, one Boeing 737 and a commitment to purchase six Boeing 747-400s at a later date.

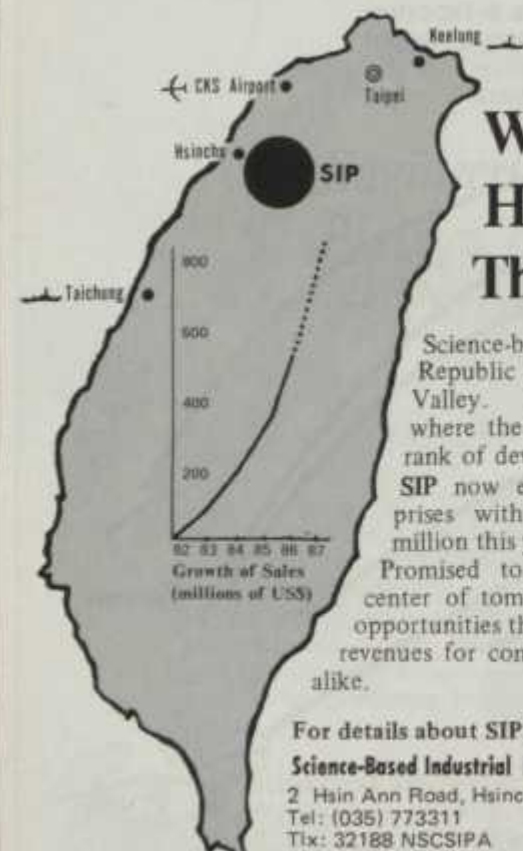
Local businessmen are also playing a role in this effort. This summer a privately organized purchase mission, made up of 70 of the island's top industrialists representing 32 major industrial associations, traveled to the United States for a two-month visit to 20 American states. The purpose of this trip was to buy U.S. goods and to look into investment opportunities in the United States.

The R.O.C. is also the third largest buyer of American agricultural products. As a result of the government's "Buy American" policy, the R.O.C. purchases almost all of its grain from the United States, despite the availability of lower priced, heavily subsidized EEC and Australian grain.

Taipei previously signed two five-year grain-purchasing agreements with Washington, one in 1976 and another in 1981, agreeing to buy 27 million tons of grain. Recently, a third agreement was signed for the purchase of an additional 18 million tons of American grain over the next five years.

At present, the United States provides the R.O.C. with 100 percent of its soybean imports, 99 percent of its corn, 83 percent of its tobacco leaves and 64 percent of its apples. In fact, the island buys more American apples than any other country in the world and is the third largest consumer of U.S. corn, the fourth largest consumer of barley and the fifth largest buyer of soybeans.

The R.O.C. also limits bidding on certain major projects to either U.S. or Western



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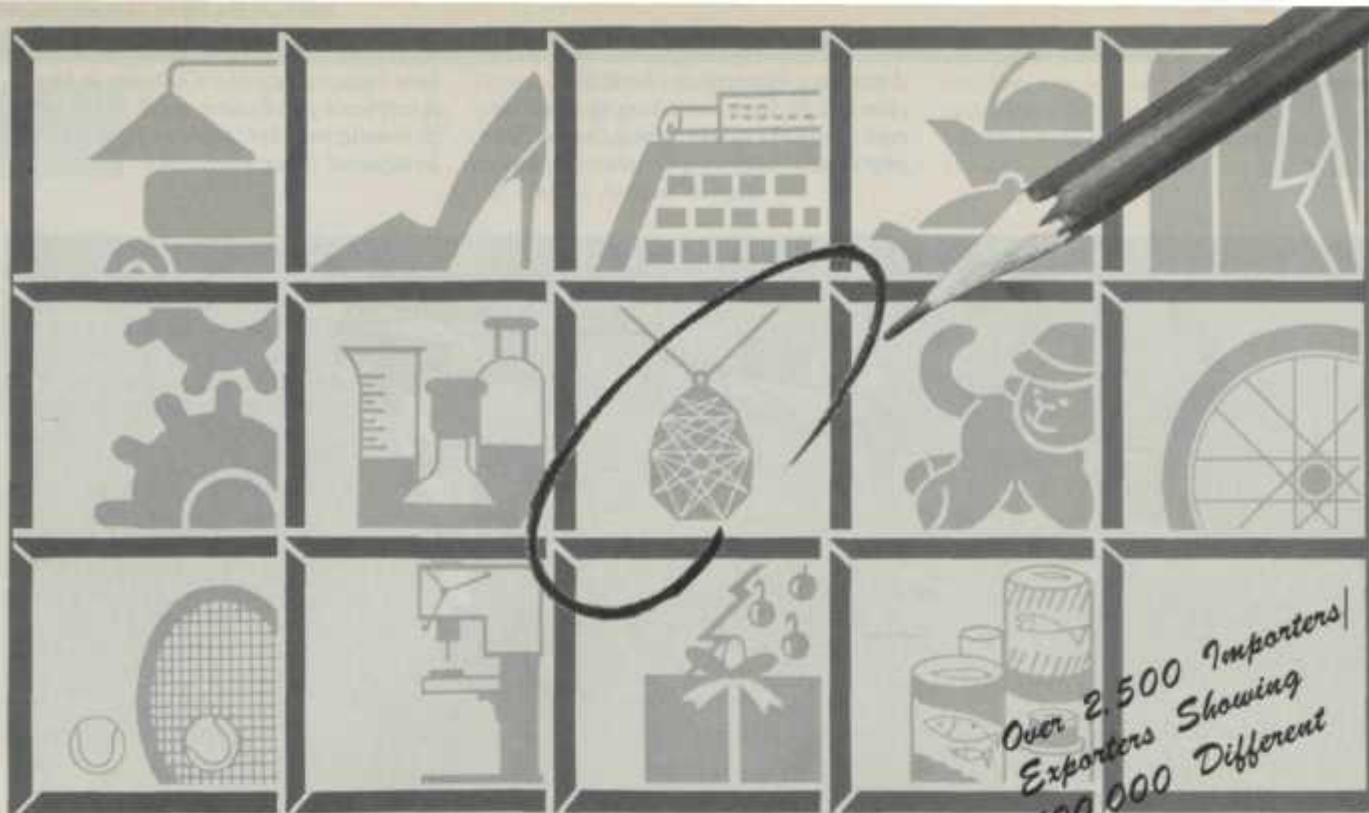
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Taipei World Trade Center Show Calendar:



Taipei Int'l Electronics Show
October 6-12, 1987



Taipei Pack
October 21-25, 1987
packaging and printing machinery and materials



Taipei Plus
October 21-25, 1987
rubber and plastic machinery and materials, semi-finished and finished products



Taipei Int'l Gift, Jewelry & Stationery
Autumn Show
November 3-7, 1987



Taipei Int'l Furniture & Woodworking
Machinery Show
November 17-21, 1987



Taipei Toy Expo
January 10-16, 1988
for local exhibitors only



Taipei Int'l Gift, Jewelry & Stationery
Spring Show
March 21-25, 1988



Taipei Int'l Sporting Goods Show
April 11-15, 1988



Taipei Int'l Cycle Show
April 11-15, 1988
bicycles, motorcycles and spare parts and accessories



Taipei Int'l Food Industry Show
April 22-25, 1988



Taipei Int'l Footwear & Leather Goods
Show
May 3-7, 1988



Taipei Int'l Auto Show
May 21-25, 1988



Taipei Int'l Hardware & Building
Materials Show
May 21-25, 1988



American exports to the R.O.C. climbed 34.5 percent during the first eight months of 1987. But the trade gap is still heavily in Taiwan's favor.

One reason, say the Chinese, is that American producers, with their large domestic market, seldom look abroad to expand their markets.



PHOTO: HARVEY LLOYD-THE STOCK MARKET

European bidders, giving these countries a better chance to win government contracts. Some 38 items are limited to American and European suppliers, including radios and TVs.

All of the R.O.C.'s state-run corporations, such as the China Steel Corporation, the Chinese Petroleum Corporation and the Taiwan Power Company, are encouraged to look to America when purchasing machinery and equipment from abroad. In many cases, Japan is restricted from the bidding.

The government is now working on 14 key infrastructure projects, and U.S. firms stand a good chance of winning some of the \$21 billion budgeted for these projects. Although the lion's share is expected to go to local companies, several American firms have already been awarded contracts, including Otis Elevator, AT&T and Foster Wheeler.

Earlier this year the government once again showed its determination to balance the trade gap when it turned down a contract-renewal bid offered by British Transit Consultants. Instead, the design contract for Taipei's new mass-transit system was awarded to American Transit Consultants, a U.S. consortium that includes Parsons Brinckerhoff, Inc.; Raymond Kaiser Engineers, Inc.; and the Bechtel Group.

The R.O.C. is seeking to help American firms in other ways as well. It has assisted the U.S. Department of Commerce in set-



ting up the offices of the American Trade Center (ATC) in Taipei. Offices and exhibition showrooms are provided rent-free to ATC for the purpose of promoting U.S. products in the local market. The government has also sponsored American-product exhibitions and organized trade and investment seminars to increase awareness of the benefits of developing this growing market.

The China External Trade Development

Council (CETRA), a semi-government trade-promotion body, provides a wide number of free services and facilities for foreign business people interested in exploring the local market. CETRA will provide market information, up-to-date statistics and company-name lists, and will arrange business meetings with reputable potential trade partners. And this can all be done before the company sends any representatives overseas.



Taiwan still has rice farmers, but as a result of the government's "Buy American" policy, the R.O.C. purchases almost all of its grain from the United States, despite the

availability of lower priced, heavily subsidized European Economic Community and Australian grain exports.

The pace and scope of trade reforms being carried out in the R.O.C. have outstripped all other countries in the Far East. The government has lowered tariffs, removed nontariff barriers, allowed the NT dollar to appreciate, relaxed limitations on investment and has liberalized trade in services.

As a result of all these moves, American exports to the R.O.C. climbed 34.5 percent during the first eight months of 1987. But the gap is still wide. One problem is that American producers, with their large domestic market, seldom look abroad to expand their markets. "Look in any hotel lobby," says William Wang, director of the Chinese National Association of Industry & Commerce, "and you will see American buyers and Japanese sellers."

From this it should be clear that it is neither possible nor realistic to put the entire burden of balancing trade on Taipei's shoulders. But if U.S. firms do not make any attempt to sell abroad, it is difficult to see how the global trade imbalance can be



PHOTO: HARVEY LLOYD—THE STOCK MARKET

reversed. Only 8 percent of U.S. firms engage in export business, and exports account for just 8 percent of America's GNP, while R.O.C. exports of goods and services amounted to 58.9 percent of its GNP in 1986.

"We have done a lot over the past year to open our markets, and we hoped that this would help U.S. companies to in-

crease their market shares," says Vincent Siew of the BOFT. "But so far we have only seen a tendency of growing imports from all over the world, while imports from the United States have not increased substantially."

While many European companies are taking advantage of the R.O.C.'s new measures to gain a corner of the local market,

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Chang Hwa Commercial Bank 57 Chung Shan North Road, Sec. 2, Taipei, Taiwan	The Central Trust of China 47 Wu Chang Street, Sec. 1, Taipei, Taiwan	Overseas Chinese Commer- cial Banking Corporation 8 Hsing Yang Road, Taipei, Taiwan	Chung Hsing Bills Finance Corporation 4th Fl., 125 Hanking East Road, Sec. 2, Taipei, Taiwan	Kaohsiung Business Bank 87 Chung Chen 4th Road, Kaohsiung, Taiwan
Land Bank of Taiwan 48 Kuanchuan Road, Taipei, Taiwan	Directorate General of Postal Remittances & Savings Bank 216 Ai Kuo East Road, Taipei, Taiwan	Shanghai Commercial Savings Bank 10 Jen Ai Road, Sec. 2, Taipei, Taiwan	International Bills Finance Corporation 13-14th, 62 Tzu Hui North Road, Taipei, Taiwan	Taijung District Business Bank 334 Chunghua Road, Sec. 1, Taichung, Taiwan
The Cooperative Bank of Taiwan 77 Kuanchuan Road, Taipei, Taiwan	The Export-Import Bank of the Republic of China 8th Fl., 2 Sparrow Road, Taipei, Taiwan	Taipei Business Bank Ltd. 38 Hanking East Road, Sec. 3, Taipei, Taiwan	Chung Hua Bills Finance Corporation 6-7 Fl., 84 Tzu Hui North Road, Taipei, Taiwan	Enterprise Bank of Hualien 181 Chung Shan Road, Hualien, Taiwan



While these pastries are strictly Chinese, chances are good they were made from American ingredients.



PHOTO: DAVID RIAN

U.S. companies, for the most part, continue to underestimate the potential the island holds as a fast-growing market and an offshore-investment site.

Just because the market appears small, U.S. companies should not overlook the R.O.C. Over the past 10 years economic growth has averaged 9 percent and will reach 11 percent in 1987. During this

same period, the value of R.O.C. imports has recorded an average annual-compound-growth rate of 12.3 percent. Imports are expected to reach the \$30 billion mark this year and are predicted to exceed \$50 billion sometime in the 1990s.

"Per-capita income is rising," says Stephen Craven of AIT, "and people are leaning toward more Western spending pat-

terns." In fact, per-capita income has grown from \$1,039 in 1976 to \$3,438 in 1986, for an average annual-growth rate of 12.86 percent. Residents of the island also enjoy the highest savings rate in the world, with each household saving about 37 percent of its income and with an average of \$18,000 in savings. Purchasing power is among the highest in Asia. For each 100 households there are 96.3 refrigerators, 101.5 TVs and 76.9 telephones.

With the government committed to promoting U.S. products in the R.O.C., more and more manufacturers are finding out that there's a profitable market for American goods. However, more must be willing to make the effort to sell in the R.O.C. if the trade imbalance is to be reversed.

"Once all the markets are open, and all the barriers are reduced, you still have to sell into the market," says General Instrument's James Klein. "If this is done, and there's still a trade imbalance, are we willing to admit it's our fault?"

The R.O.C., which has a large trade deficit with Japan, understands that balanced trade is important but that it is sometimes difficult to achieve. However, the actions of the government over the past year show that it is determined to do everything it can to close the trade gap.

The R.O.C. is America's sixth largest trading partner and its fourth largest supplier of manufactured goods. A fair and free trade system is clearly in the interest of both nations. Protectionist measures aimed at the R.O.C. will not help to reduce the U.S. trade deficit, but will only impede the free flow of trade.

The R.O.C.'s surplus in trade with the United States may be slowed down, but will never be entirely eliminated. Although there is still much to be done, the R.O.C.'s economy and manufacturers need time to adjust to the significant changes that have already been made. "Domestic firms are being hit from both sides—appreciation and liberalization," says Liang Kuo-shu, chairman of state-run Chang Hwa Commercial Bank. "It's a double shock."

Finding realistic ways to narrow the trade gap between the two countries will be difficult, and no one should expect this to happen overnight. However, if both sides are willing to cooperate, progress can certainly be achieved. The United States played an important role in the R.O.C.'s economic miracle, and it would be a sad irony if America were to be responsible for the collapse of the island's economy because of protectionist measures.

The R.O.C. needs time to adjust to the changes resulting from its new policies. The United States should respond with encouragement rather than punishment. **RB**

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Just Merged

By Karen Berney

The merger of giant Bausch & Lomb, Inc., and tiny Polymer Technology Corporation should not be working.

Historically, the odds are 70-30 against the prospect that any merger or acquisition will meet the expectations of everyone involved.

And the Bausch & Lomb-Polymer Technology union appeared to have other inherent problems.

Bausch & Lomb was a mature, \$700-million-a-year company with more than 8,000 employees worldwide; controls are tight, and major decisions are reached slowly.

When the prospect of the merger

arose five years ago, Polymer Technology was a 30-employee company on the threshold of commercializing the development of hard, permeable-plastic contact lenses. Its four founders had little exposure to the realities of corporate America; controls were lax, and decisions were made quickly and, in many instances, intuitively.

"Our culture was the complete antithesis of Bausch & Lomb's," says Per-

Perry Rosenthal's firm, Polymer Technology, succeeded in its merger with Bausch & Lomb even though this Polymer product for cutting contact lenses meant competition for B&L.

ry Rosenthal, one of Polymer Technology's founders and now chairman of its board. "I guess you could call us the classic, irreverent upstart. We thumbed our noses at rules and procedures."

As if the clash of cultures was not enough, consider that Polymer Technology was competing head to head with one of Bausch & Lomb's divisions. "If I had been in that division," says Rosenthal, "I would have seen us as a very juicy morsel to be gobbled up."

Despite these differences, the marriage has been an unequivocal success, Rosenthal says. Polymer Technology's sales have doubled each year, employment has quadrupled, and three of the



PHOTO: RICHARD HOWARD

A merger succeeds only when the people who make an entrepreneurial company special are happy with the deal. If they walk, everyone suffers. Here's how some companies have made mergers work.



four founders are still in charge.

What went right? What determines one merger's success and another's failure? *Nation's Business* put those questions to the experts—managers who decided that a merger would be beneficial for their respective companies, entrepreneurs who have sold their businesses and continue to run them and the heads of companies that bought these businesses. What comes to light is no magic formula for making a merger work but rather a variety of tactics and strategies for astutely handling the people who determine the ultimate fate of the newly acquired company.

When the merger or acquisition com-

bines a larger company and a smaller one, those tactics include the ability to anticipate and deal with people problems, effective communications and sufficient research to assure that the right chemistry exists between the managers of the two firms. Essential players are individuals in the larger company with experience that enables them to perceive the special needs of the entrepreneur and the corporate

The Dixon Industries-Coleman Company merger is working, says K.O. Dixon, because Coleman "found the right balance between independence and control."

managers who must learn to accommodate what are frequently the free-wheeling ways of entrepreneurs.

But many managers overlook people factors and view mergers and acquisitions only as exchanges of property and equipment, product mixes and anticipated sales increases.

"You'd be surprised how many deals are concluded on a review of cash flow, a plant visit and a handshake," says Robert Nadel, senior vice president of the Hay Group, a consulting firm in Walnut Creek, Calif., that specializes in helping companies manage mergers.

In 9 out of 10 cases where people factors are ignored, Nadel says, the



PHOTO: STEVE JENNINGS—PICTURE GROUP

COVER STORY

Just Merged

best and the brightest will leave the acquired company, taking with them the ingredients that made the firm successful and an attractive prospect for the acquisition in the first place.

"I don't know any CEO who doesn't love numbers and deal making," asserts Jeffrey Silverman, chief executive officer of Ply*Gem Industries, Inc., a New York manufacturer of home-improvement products that has seen sales increase fourfold through the addition of eight small companies. But after the papers are signed and the financial consultants have left, you could find yourself confronted by a lot of anxious people—from the top on down, Silverman says. If you're not equipped to deal with them, performance in the purchased company is going to suffer, he adds.

If a deal looks imminent, Silverman doesn't wait to meet the owner of the company he plans to acquire. He hops on a plane and spends time getting to know him on his own turf.

"I try to ascertain the guy's darkest fears and long-term objectives," he says. That information becomes the ba-

sis for crafting a post-merger strategy. Says Silverman: "Say I know the guy's chief concern is that he'll be put out to pasture after the sale, or that his children won't be given a fair chance to rise to the top in a company that he founded. That tells me an awful lot about what we'll need to do to keep him happy and productive."

Incidentally, you won't catch Silverman using the word "acquisition." He frowns on it, saying it implies ownership of people. "That's ridiculous!" he insists. "Ply*Gem doesn't own people; it forms partnerships with them."

Such good chemistry is essential. The chemistry between Bausch & Lomb Chairman Daniel Gill and Perry Rosenthal is what convinced Rosenthal and his partners to pick Bausch & Lomb over other buyers.

The moment Rosenthal met Gill he knew he had an ally for life. "Gill could

read my mind," he says. In a flash Gill recognized that Polymer Technology valued its autonomy above all else. So he committed B&L to treating the company as an arm's-length subsidiary, not a division, and he has kept his word.

"Gill has had to deal with a lot of discomfort as a result of our independence," says Rosenthal. Periodically, the B&L division in competition with PT mounts a campaign to "assimilate us in order to enhance its bottom line," he reports. "Yet Gill always grits his teeth and does what he must to protect us."

Jeremy Brown, CEO of the Bethesda, Md., advertising agency, Earle Palmer Brown Companies, learned about chemistry the hard way. When he bought a Philadelphia agency, Kalish & Rice, in 1984, the deal looked like a winner. At least that is what his bankers said. But Brown admits he didn't do all his homework.

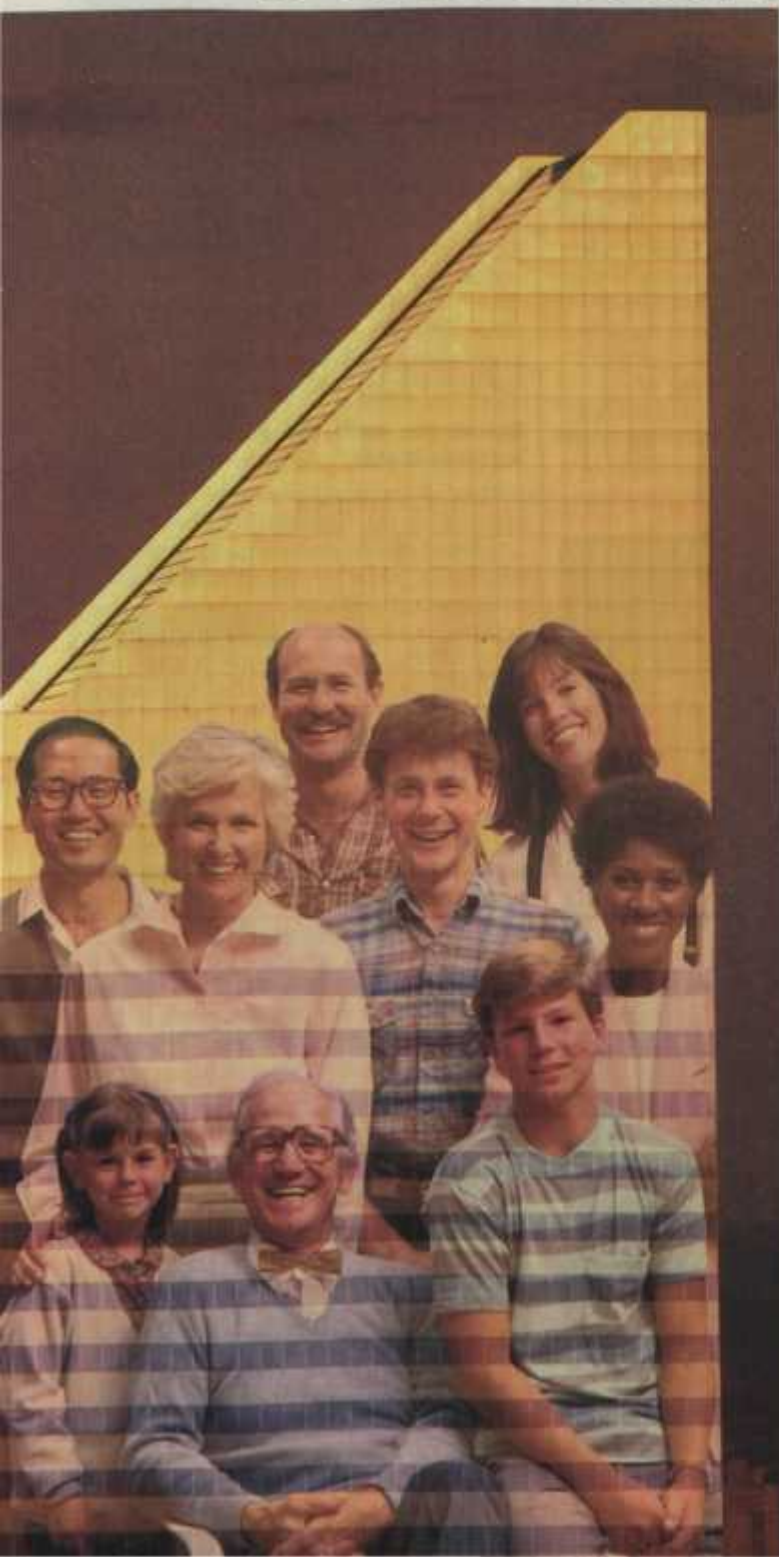
Although he researched Kalish & Rice extensively, Brown barely had more than a brief meeting with the
Continued on Page 35

Dave Parkinson credits the smooth merger between his firm, Westec Services, and ERC International to good communications.



PHOTO: TOM WOLFE

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Selling Your Business: Frequently Asked Questions

Contemplating selling your company? More and more owners of small and medium-sized businesses are these days: Of the 37,000 businesses that will change hands this year, 15,000 will involve privately held companies selling for \$1 million to \$50 million. Sales in that range are up 20 percent over 1986, reports The Geneva Companies of Costa Mesa, Calif., which tracks buying-and-selling activity.

Yet until business owners experience a merger or acquisition, few will know what to expect or how to proceed, says George Stevenson of Stevenson & Company, which matches mid-market buyers and sellers. In this interview, Nation's Business asks the mergers-and-acquisitions specialist the questions you may someday be asking yourself.

When is the best time to sell?

Before you are forced to do so by health or financial reasons, so you can be in the strongest negotiating position. And at least two years before you want to, because it takes about 12 to 15 months to sell a business, and the buyer may ask you to stay on up to a year for a transition period.

How do you figure how much a company is worth?

There is no simple method. But to approximate the value of your business, without spending money for a professional valuation, you should consider both its assets and earning power.

The appraised or market value of assets, less liabilities, provides the minimum price you can expect.

Earnings power is a function of annual earnings, with expenses due to private ownership added back to profits, divided by the rate of return a buyer will need (usually in the 20-50 percent range) to make your company a competitive investment when compared to alternatives. This value usually accounts for at least 50 percent of the price paid by the buyer.

How do you get the best price and find the right buyer?

To maximize your price, you need a steady record of profits, hard assets on

your balance sheet, a proprietary product line or strong market position, and backup management that can run the business in your absence.

In looking for a buyer, consider who would gain the most from owning your company. A customer, supplier or competitor? Your employees? Develop a list of all the potential candidates, and begin to contact them.

Also include firms that may want to enter your industry and investment groups that may be interested in maintaining the company as an independent entity. An experienced business broker will know many of these last two types of buyers and can conduct the prelimi-

George Stevenson, president of Stevenson & Company, helps match sellers with buyers. The most difficult task for business owners, he says, is arriving at a realistic selling price.



PHOTO: HOWARD DENK

nary discussions for you without disclosing the name of your company.

What should your selling objectives include?

Only you can answer this for certain. In addition to getting the best price, you may want to continue running your company after it is sold, keep your existing employee benefits intact and even preserve use of a company car, airplane or apartment.

Remember, you call the shots: It is a seller's market. You can be very selective and only talk to buyers that meet your personal and financial objectives.

How do you start to sell a company?

After deciding on a price and other objectives, prepare a thorough written description of your company. This will save you from having to answer the same questions over and over again, prevent misunderstandings and control the information you give to outsiders.

Should you seek the assistance of a business broker?

Selling a company is a long and time-consuming job. Generally the best thing an owner can do is manage his business profitably while engaging a broker to prepare a presentation package, screen prospective buyers, negotiate and evaluate offers, arrange plant visits and perform the myriad of other necessary tasks.

In addition, an outside party brings objectivity (it's not his baby being sold) and can act as a buffer between the buyer and you.

What will the services of a business broker cost?

The seller pays the broker's fee, which is usually based on the "Lehman" (of Lehman Brothers fame) formula: 5 percent of the first million, 4 percent of the second, 3 percent of the third, 2 percent of the fourth and 1 percent of the fifth million and the balance on up. If pieces of the company are sold separately, the formula is applied to each transaction.

Brokers sometimes require an upfront retainer's fee that is deductible from the commission.

Additional information on these and other relevant questions is available in a new publication from the Small Business Administration, "How to Buy or Sell a Business." To obtain a copy, send \$1 to SBA, P.O. Box 1534, Ft. Worth, Tex. 76119.

Just Merged

agency's founder. The problem: "The guy basically changed his tune," says Brown. "The day after the sale he decided he didn't want to give up control." He refused to delegate and resisted implementing every suggestion Brown made.

What transpired was a prolonged battle of wills that the K&R founder eventually lost only after exacting a heavy toll: Two years after the purchase, he was gone, as were two thirds of Kalish & Rice's employees and a handful of its major accounts.

In 1987, Brown bought two other ad agencies. But he did things differently this time. He made sure early on that Earle Palmer Brown and the companies to be acquired could work together.

In one case, a presentation for a client was developed by a team representing Earle Palmer Brown and Burton-Campbell, an Atlanta ad agency that had fallen upon hard times.

When Burton-Campbell's 65 employees heard that the sale had been finalized, most went into shock, Chairman Ron Scharbo recalls. "They were just

waiting for EPB to pounce on us," he says. But the fact that some Burton-Campbell staffers had met the enemy, as it were, made Scharbo's selling mission a lot easier. "It wasn't just me saying that the deal was in our interest," he notes, "it was their peers, too, and that bolstered their confidence."

Since the deal was finalized in August, things are indeed looking up at Burton-Campbell. New media and creative directors have been hired while new billings for the agency are starting to roll in.

Echoing the sentiment of other buyers, Brown says he favors treating the companies he acquires according to the old adage: "If it ain't broke, don't fix it." As long as a company is growing and is in capable hands, "we try very hard to leave it alone," he says.

Generally, however, sellers should expect to lose some autonomy, particularly over financial matters. And that's not always a problem.

"I'm glad to be relieved of the admin-

istrative and financial burdens of running a business," says Scharbo. "I now have much more freedom to do what I do well," which, he says, is developing new business.

K.O. Dixon, founder of Dixon Industries, Inc., a maker of riding lawn mowers, wanted access to operating capital and management expertise when he sold his firm to The Coleman Company of Wichita last year. While his Coffeyville, Kans., company was growing rapidly, Dixon says he did not want to borrow to keep the momentum going.

Coleman quickly installed a new accounting system and imposed strict reporting procedures. But it left Dixon in charge. "I think I have the best of all possible worlds," he says of the current arrangement. "I am still running my company, the pressure is off me to assume greater debt, and I have the vast resources of Coleman at my disposal."

Still, Dixon might feel a bit less secure if he didn't have someone like Jerry Meyer around. A former entrepreneur who sold his company, Skeeter Products, to Coleman a few years ago,

Seller's Remorse

When Hal Crane sold his 100-employee software company to a large aerospace concern three years ago, he agreed to stay on. But Crane, then 57, discovered he had no taste for multi-layered management. He explains: "I couldn't get used to working in slow motion."

When his agreement with the buyer came up for renewal a year later, Crane bailed out.

Crane made a gallant effort to enjoy retirement, but after a few weeks, he was not only bored, he was also scared. "I'd wake up, read the newspapers and play a few holes of golf. Then at noon it would hit me," he recalls. "I'd say to myself, not only do I have no place to go for the rest of the day, I have no place to go for the rest of my life!"

Crane fell into a depression. "Useless" and "inadequate" are the words he uses to describe how he felt. Business brokers—specialists who find buyers for sellers—have coined a phrase for Crane's condition. They call it "seller's remorse." It hits so hard, they note, that between 20 and 30 percent of their clients come knocking on their



PHOTO: T. MICHAEL KEER

Hal Crane caught a severe case of "seller's remorse" because he failed to think about what life would be like after he sold his business.

doors within three to five years in search of another business to buy or invest in.

Selling a business is different than selling any other asset you own, says John Johansen, president of Adams Tate, Inc., an Arlington, Va., firm that handles sales for small companies. "That's because a business is more than an income-generating asset, it's a

lifestyle as well." Crane could not agree more.

Knowing what he knows now, Crane offers advice similar to that of experts: Don't catch yourself unprepared. Develop an alternative life plan to running a business, and devote the same thought and attention to the process as you do to getting the best selling price.

Today Crane is president of the Institute for Systems Analysis, a Bethesda, Md., consulting firm that he started with his wife and two other partners. Barely a year old, the firm has already won more than \$1 million in government contracts, he reports.

COVER STORY

*Jack Smith's company, Hoover Treated Wood Products, is prospering under its new owner, Ply*Gem Industries, because employees know they are valued.*

Meyer is now a Coleman group vice president with a split personality.

"Having been there myself, I understand the entrepreneurial spirit and how to keep it alive," he says. But he is equally attuned to the corporation.

"I'm the one," Meyer explains, "who kicks the rocks out of the road for the entrepreneur. . . . I prevent his company from becoming Colemanized." In return, Meyer demands that the entrepreneur demonstrate management savvy and financial results.

People like Jerry Meyer operate under various titles at many companies that have successfully carried out acquisitions. Diane Harris, vice president of corporate development at Bausch & Lomb, calls them "operating champions."

In Polymer Technology's case, the operating champion is its president, Carl Sassano, a former director of marketing for B&L's soft-lenses division. "Carl bridges the culture gap between them and us," says Perry Rosenthal, who offered this example of Sassano in action:

A B&L research team had just produced a new sterile solution for the soft-lenses market. PT was developing a similar formula for hard lenses and wanted to speed up its efforts.

B&L managers, however, wanted PT to wait for access to one of B&L's extensive research facilities. Carl Sassano argued that PT could get to market faster and less expensively if it built its own low-cost test facility. The PT test site was operating in two months, and the new PT product was ready for sale a few months after that.

"Here's a case where we had a conflict over what it means to take a reasonable risk," says Rosenthal. Sassano understood that PT had staked its success on aggressive risk taking, but, at the same time, he appreciated B&L's methodical approach.

While handling the founders and managers of entrepreneurial companies is the most delicate aspect of an acquisition, buyers agree that employees need to be treated with as much tender loving care, if not more.

"You've got to welcome employees into the family," says John E. Gray, president and chief operating officer of ERC International, a Fairfax, Va., supplier of professional and technical services that acquired three companies last year. "If you don't make things right for them, they sure are not going to make things right for you."



PHOTO: TERRY PARKS

Experts have no shortage of horror stories about post-merger problems caused by a conscious or unconscious lack of commitment on the part of employees. The results are all too often productivity declines followed by losses in market share.

Mergers traumatize people, says Michael Mercer, a management psychologist and president of The Mercer Group in Skokie, Ill. What they took for granted becomes uncertain, and rumors swirl through the company. This is why ERCI believes that it's almost impossible to overcommunicate during the post-merger transition period.

Thus, immediately after Dave Parkinson decided to sell his company, Westec Services, Inc., to ERCI, Gray and ERCI CEO Jack Aalseth were en route to Westec's San Diego headquarters. In face-to-face meetings, employees were given an honest appraisal of the future: Some things might change, they were told, but nearly everyone could expect to gain from the opportunities the merger created.

Afterwards, Parkinson met with all 300 employees in groups of 10 to reinforce what Gray and Aalseth had said.

But ERCI kept transmitting its message. Its newsletter carried an announcement of the Westec purchase and a complimentary story on a Westec project with the Navy.

In another high-visibility event, the firm included Westec employees in a contest to select the outstanding ERCI employees of 1986 even though the merger was only a few weeks old. The winners included three Westec employees, each of whom received \$5,000 worth of ERCI stock.

Communication is "how we are building trust and confidence between the two companies," says Gray. It has paved the way for change—an inevitable consequence of all mergers.

For instance, six months into the new relationship, Westec's defense group proposed without prodding to mesh with ERCI's defense operations in Fairfax. Now teamed up, the group is preparing its plans and budgets for 1988.

Jack Smith, whose company has been acquired twice, has had experience with tactics that don't work. He stayed on at Hoover Treated Wood Products in Thomson, Ga., after it was taken over by its first buyer. His new bosses liked to exercise authority but did not always do so effectively, Smith says. "They would do things like tell us to cut inventory by 25 percent—or else," he says. "The problem is that we're in a seasonal business and have to increase inventory by more than 100 percent during certain times of the year."

The parent was heavy-handed toward people, too. As a result, it failed to generate loyalty and dedication in Smith and his employees. Not surprisingly, Hoover's sales stagnated.

Smith likes to contrast those unhappy days with life under Ply*Gem, the current owner. He again makes the day-to-day managerial decisions and his employees are treated with respect and warmth by Ply*Gem's CEO, Jeffrey Silverman. The new combination is paying off: Hoover's sales have been growing 10 percent a year since the merger.

Achieving that kind of success is not easy. Entrepreneurs are fiercely independent by nature, so how can they be made to feel proud of being part of a large corporation? Jack Smith, speaking from direct experience with what can go wrong with mergers, as well as with what can go right, has this advice for a larger firm joining a smaller one:

"Give us the kind of respect that entrusts us with the latitude to make decisions. Then we can't help but prove we are worthy of the responsibility." ■



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That's a fairly odd phrase — "when you realize the future's behind you." But a forward thinking company knows exactly what it means.

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Making The IRS Accountable

By Albert G. Holzinger

Sen. David Pryor (D-Ark.) has been deluged with letters supporting his Taxpayers' Bill of Rights.

Alan Tucker had a thriving business redeveloping urban Denver houses when the IRS closed him down without giving him adequate time to

meet the agency's demands. The action deprived Denver of a useful community service and many jobs.



PHOTO: T. MICHAEL KEZA



PHOTO: JAMES COOK

Alan Tucker and his wife felt they were combining enterprise with community service when they established Petra Group, Ltd., to redevelop run-down housing in the poorest areas of Denver.

The company bought abandoned buildings, then hired and trained chronically unemployed area residents to refurbish them. The properties were then sold, with neighborhood groups given first chance to buy.

From the day they started, the Tuckers withheld required taxes but assumed erroneously that payroll-tax returns were to be filed annually. When an accountant was hired by the firm, he informed the Tuckers of the error. And their nightmare began.

The Tuckers told the IRS of their mistake and asked for help in determining their tax liability. When they filled out the required forms, they were given 10 days to pay more than \$64,000 in taxes and penalties, plus interest to be determined later.

The Tuckers did not have that much cash, but they had several property closings pending. They sought an in-

stallment-payment plan. Their request was refused.

Within two hours of their first meeting with the IRS—well before the 10 days elapsed—the service seized the Tuckers' bank accounts and filed liens against their properties.

The Tuckers declared bankruptcy. "My family has been devastated," says Alan Tucker. "We poured everything into our work and commitment to the community. Now, the IRS has tainted our reputation, shut down a useful business, cut off payments to more than 100 contractors and eliminated the jobs of many, many taxpayers [who were on the payroll]."

The Tuckers' experience with the IRS represents just one of the many examples that have built strong support in Congress for passage of a Taxpayers' Bill of Rights to give individuals a far more secure base than they now have in dealing with what is probably the most feared of all federal agencies.

Sen. David H. Pryor (D-Ark.), chairman of the Senate subcommittee on oversight of the IRS, drafted the Taxpayers' Bill of Rights after hearing

from thousands of taxpayers. They complained in letters and in testimony before his subcommittee of having been subjected to unfair and even abusive treatment in trying to resolve problems with the IRS.

Pryor says that significant support for his bill comes from small-business taxpayers: "These people are easy marks for the IRS. They don't have batteries of accountants and tax attorneys."

His bill and an identical House bill would:

- Require the IRS to prepare a brief, nontechnical statement of the respective rights and obligations of taxpayers and the collection agency during audits. The statement would be mailed annually with tax-filing forms.
- Expand the taxpayer-assistance program of the IRS.
- Require the service to honor installment-payment agreements that its agents make with taxpayers.
- Make it more difficult for the IRS to put liens on or seize taxpayer property and bank accounts.
- Authorize the taxpayer ombuds-

Significant numbers of small-business people are joining the angry chorus of taxpayers who feel the IRS's strong-arm collection tactics should be curbed.

man in the IRS to issue orders that would require the service to cease "clearly erroneous and unjustified" proceedings.

● Allow taxpayers to recover professional fees and other costs incurred in defending themselves from unjustified IRS proceedings.

Those proposals evolved from a growing chorus of taxpayer complaints over the way they were treated when they ran into problems with the IRS.

For Yvonne Grant, the problem actually began on a pleasant note. The Internal Revenue Service wrote that her business, Nutcracker Electronics of Houston, was due a withholding-tax refund of \$1,700. Her joy was short-lived.

When a month passed and no check arrived, Grant called for an explanation. She was told that her firm was due only \$200. Two months later, the IRS changed its mind again. An agent told Grant she owed the government \$270.

"Fear of being closed down prompted me to pay without question," she says.

It doesn't always take a taxpayer mistake to bring on troubles with the IRS. Consider the case of Dr. John Burton, partner in a small medical practice in Baltimore, Md. He was making payroll-tax payments of about \$800 weekly. But in early 1986, he began receiving deficiency notices.

Eager to rectify any error, he sent copies of all canceled checks for the preceding two years to the service. His accountant visited the local IRS office twice but could not learn why the notices were sent.

Last June, Burton's banker told him that the IRS had filed a lien against the medical practice's checking account.

"The IRS didn't tell us what it was doing—our bank had to do that—but it sent notice of the lien to the mortgage holder on our condominium and others," says Burton. "It's a good thing we had been in business for 20 years and were known as a good credit risk. Otherwise, we could have been ruined."

The service finally contacted Burton in September, 1986. It had discovered the problem: IRS had credited 13 of his checks to the wrong account.

Though much of the taxpayer anger arising from such incidents is directed at IRS agents, some of the service's present and former officers see the leg-

islation as a corrective for some official procedures they condemn.

Joseph B. Smith, Jr., a revenue officer for 18 years, attributes most taxpayer abuse to tacit IRS "production quotas" for its employees.

"Production was always the name of the game" at the service, says Smith, who now is president of The Tax Management Corporation, Inc., of Las Vegas. "The ability of revenue officers to close cases, collect money and make seizures is essential to promotion."

Pryor's bill would prohibit basing evaluations and promotions on the amount of money collected or number of properties seized.

IRS Commissioner Lawrence J. Gibbs opposes the Taxpayers' Bill of Rights on grounds that revenue losses under it would be "significant—prob-

bly hundreds of millions of dollars." He anticipates losses from such things as damages recovered by taxpayers.

But Sen. Pryor offers another case history to show that fear of the power of the tax-collection agency can be very real.

"There's such fear of the IRS now that most taxpayers are too scared to write their representatives and senators on this issue," he says. "I recently got a letter that read, 'Dear senator, I want you to add my name to the growing list of those supporting your Taxpayers' Bill of Rights.'"

"The letter was signed, 'Anonymous.'"

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Have Yourself A Wary Christmas

By Nancy L. Croft

Dreaming Of A Brown Christmas

Among the revelers decking their halls with boughs is David Lawrence, who has forgone holly for potted, dead shrubs.

His 8-month-old company, Everbrown, Inc., started when Lawrence got tired of customers telling him that the plant in his Baltimore gas station's window was dead.

"Finally I said, 'No it's not, it's an Everbrown,' and I'd go off into a long, involved story about this special plant," says Lawrence.

The Everbrown (*Extremus Maximus Deadus*) comes with a book describing the product's many virtues, among them, "it stays seven inches tall forever" and is "completely maintenance-free." Lawrence touts his product as the "Pet Rock of the '80s," the perfect companion—needs no water, air, sun, food, fertilizer, transplanting or special environment.

Just introduced, the Everbrown should be hitting novelty stores on the West Coast—where Lawrence has a distributor—in time for Christmas.

Lawrence even offers a guarantee: "The Everbrown is guaranteed not to grow," he says. "But if, for any reason, it does start to grow, you can send it back for a new one."

Games People Play

Is meeting deadlines before the holiday causing you stress? A new board game called Stress Attack may help you cope with pencil-breaking, ulcer-making situations.

The game was created by Stressbusters, a Massachusetts seminar company run by Craig B. Mardus, a stress consultant and lecturer.

The purpose of the game, says Mardus, is to learn stress-reduction techniques while having fun.

Players role a die and land on squares that tell them to select a card



ILLUSTRATION: WILLIAM COULTER

from one of four categories of stress: childhood, school, job and love-life. Each card describes a stressful situation.

A card from the job-stress category says, for example: "While on a business flight back from the worst disaster of your sales career, you get an inflight phone message that you are fired. You find out upon landing that the airline has lost your luggage."

When the stressful situation is determined, a player then draws from another stack of cards that specify one of several stress-reduction techniques. The player must relate that particular technique to the situation described in the first card.

If the other players are not convinced that the approach would be successful, the player loses a turn. The player who gets around the board first wins. But there are tricks and curve balls to make getting through the game a stressful challenge.

Mardus says Stress Attack can be used therapeutically in corporate stress-reduction seminars, nursing homes, schools and even at home. Stress Attack is available only by mail from Stressbusters, Stratton Road, Williamstown, Mass. 01267.

For people who love charades and Trivial Pursuit, Rob Angel of Seattle, Wash., has created a fast-paced guessing game called Pictionary.

In just over one year, Angel says, more than 3 million Pictionary games

Retailers are testing the limits of creativity this holiday season—from dead houseplants to stress-control games.

have been sold, and it is now the No. 1-selling board game in the country.

The object of the game is to move around the board by identifying words from hurriedly drawn sketches.

The words are on cards in a stack. A player takes a card and must then draw a picture that will convey that word to a partner without the use of letters, numbers or other words. If the partner guesses the word within one minute, the team advances on the board.

The idea for Pictionary developed shortly after Angel graduated from Western Washington University in 1981. He made up the game to play at parties. He would ask friends to sketch a word selected from the dictionary. Onlookers would try to be first to guess the word.

The success of Pictionary, which is designed for ages 12 to adult, has prompted Angel to design a scaled-down version called Pictionary Junior for children ages 7 to 11.

Grin And Bear It

Looking for a gift for the CEO who has everything? How about a Bearman of the Board teddy bear? He's one of a long line of alternative teddy bears created by the North American Bear Company, Inc., in Chicago.

Other costumed V.I.B.'s (Very Important Bears) include Bearilyn Monroe, Humphrey Beargart, Lauren Bearcall and Scarlett O'Beara.

The company was founded in 1978 by Barbara Isenberg and her brother Paul Levy (both natives of Chicago) after a stuffed bear that Isenberg made out of an old sweatshirt received much attention from adult friends. The company has since sold more than 3 million bears worldwide through 10,000 retail outlets, at prices up to \$108.

Two other lines, V.I.M.'s (Very Important Monsters) and V.O.P.'s (Very Outrageous Pets), feature such furry bear mutations as Count Bearacula (a V.I.M.) and Collie Parton (a V.O.P.).



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Year-End Tax Strategies For Smalls

By Joan C. Szabo

Tax experts are warning small-business owners that they should expect to deal with a host of complex changes in their next tax returns as a result of the implementation of the Tax Reform Act of 1986.

"Tax planning takes on added importance this year because of the complexity of the new law. This fact greatly increases the potential dangers for the unwary," says Richard Shapiro, national director of taxes for the New York accounting firm of Oppenheim, Appel, Dixon & Company.

Internal Revenue Service Commissioner Lawrence B. Gibbs recently advised an audience of certified public accountants: "It's going to take more time to gather the necessary information and prepare the return. Tell your clients to start early."

Tax specialists say the most important first step in mapping your year-end tax strategy is to determine whether your company is subject to the corporate-alternative-minimum tax (AMT), which was expanded under tax reform. (The AMT does not apply to Subchapter S corporations, however.)

The aim of the AMT is to assure that companies and individuals will pay taxes, regardless of the extent of deductions or other exclusions they can claim.

"It is exceedingly important for a business to get a good handle on the alternative-minimum tax," says Shapiro. And he's referring to smaller companies as well as larger ones. "The AMT covers significant portions of U.S. businesses," Shapiro says.

Under tax reform, companies figure their taxes using the regular system at the top corporate rate of 34 percent and again under the minimum-tax method at a 20 percent rate. A company's tax liability is the higher of the two figures.

The AMT excludes many breaks available under the regular system. Depreciation is less generous, and there is a tax on half the difference between book earnings reported to shareholders and taxable income reported to the Internal Revenue Service.

If you are a small-business owner using Form 1040, the individual AMT rate is 21 percent. But here again, a number of deductions are not allowed in calculating this tax. Just as with the corpo-

"Under tax reform, the traditional tax strategy of deferring income and accelerating deductions may not be to a company's advantage," says Sam

Starr, tax manager in the Washington office of Coopers & Lybrand.

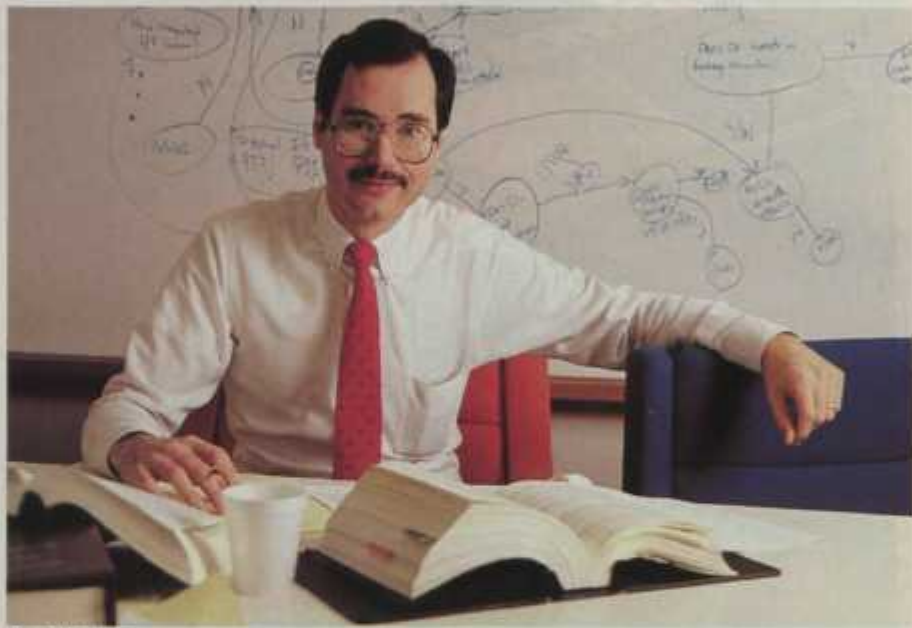


PHOTO: PAUL PETERS

rate AMT, you figure your taxes employing the regular tax system and again using the minimum-tax method, then pay the higher of the two figures.

If you are subject to the AMT, the traditional approach to year-end tax planning—deferring income and accelerating deductions—may or may not be to your advantage, says Sam Starr, tax manager in the Washington office of Coopers & Lybrand, the accounting firm.

For corporations subject to the AMT in 1987, deferring income into a 1988 regular tax year could generate permanent tax savings due to the drop in regular tax rates. This permanent tax savings might be reflected in an increased minimum-tax credit available against regular tax in future years.

The maximum corporate-income-tax rate was cut from 46 percent to 34 percent on July 1 of this year. For companies with income under \$75,000, there are two lower rates. In addition, companies that operate on calendar years face a top rate of 40 percent this year.

The 1987 marginal-tax rate for individuals is 38.5 percent. Next year, there

will be two official brackets—15 percent and 28 percent. But the marginal rate can go as high as 33 percent on joint returns reporting taxable income between \$71,900 and \$149,250 and single-taxpayer returns between \$43,150 and \$89,560. At the lower end of that range, taxpayers begin losing the benefit of the 15 percent rate applying to the first \$29,750 of taxable income for married couples filing jointly and \$17,850 for single taxpayers. At the high end of the range, taxpayers begin losing the value of personal exemptions.

Here are some other year-end tax considerations:

Deferring income may still reduce your tax bill. If you are not subject to the AMT, a worthwhile tax strategy is to defer income until 1988. This strategy may be particularly helpful for a small company using the cash method of accounting.

A cash-basis taxpayer recognizes income when it is received and expenses when they are paid, while an accrual-basis taxpayer recognizes income when services and products are rendered and expenses as they are incurred.

The shift from the old tax system to the new offers opportunities for savings.

Notes Randall Corwin, a tax partner in the New York accounting firm of Seidman & Seidman/BDO, "If you defer income until next year, you don't pay taxes on that income until you pay your 1988 income tax. In addition, you enjoy a tax savings because the rates will be lower in 1988."

What steps can be taken to defer income? If you still use cash-basis accounting, you can delay the mailing of invoices until December 31. In this way, the income due on those bills is not received until 1988, advises Richard Talkov, a tax partner with the accounting firm of Laventhol & Horwath.

Look for ways to accelerate deductions. Deductions are worth more this year because tax rates are scheduled to drop in 1988. Cash-basis companies should bunch as many business deductions as possible into 1987, say tax experts.

Order now the services and supplies you would normally buy next year. This way you increase this year's deductible expenses.

Those expenses must be paid for this year also. Says accountant Talkov: "Pay everything that is deductible before the end of the year."

A cash-basis firm should consider prepaying state and local income taxes. In December, do a calculation of your state tax bill for 1987. Make an estimated payment on December 31, and take the deduction in 1987. If you don't want to part with the cash to prepay state and local taxes, use a credit card to pay the bill, and you can still take the deduction on your 1987 taxes.

But calculate the effects of the corporate-alternative-minimum tax before making any tax prepayments.

Wholesalers and retailers must put new inventory-accounting procedures in place. Tax reform requires wholesalers and retailers with average annual gross receipts of over \$10 million to capitalize inventory and overhead costs—add them to the cost of goods when sold—rather than deduct them immediately.

Tax experts say that firms subject to the new rules must be sure to have their capital-cost accounting procedure in place to claim the eligible deductions.

Consider expensing equipment purchases instead of depreciating them. Small businesses can fully expense the

Tax reform requires some companies with inventory to put new accounting procedures in place.



PHOTO: JOHN EDNER—UNEPHOTO

first \$10,000 of personal-property capital costs in the year property is acquired.

This is often preferable to depreciation because tax rates are lower, so that it takes longer to depreciate many items. However, the \$10,000 deduction is reduced on a dollar-for-dollar basis for every dollar above \$200,000 a year spent on personal property.

If you are self-employed, either full or part time, establish a tax-free Keogh plan by December 31. A Keogh retirement plan allows you to put up to 20 percent a year of your self-employment income into a defined-contribution plan. The total contribution may not exceed \$30,000. The defined-contribution plan involves payment of a fixed annual percentage of income.

With a Keogh, you don't pay taxes on the contributions, principal or income until you start collecting at retirement.

Even though the Keogh must be set up by December 31, contributions to the plan can be made as late as the due date (including extensions) of the tax return.

If you use part of your home as your principal place of business, you can de-

duct certain expenses incurred in keeping up your home.

To calculate the portion of your home used for business, divide the business area by the total area of your home.

For example, if your home office measures 140 square feet and your home is 1,400 square feet, you are using 10 percent of your home for business. This is the percentage of indirect expenses, such as real-estate taxes, mortgage interest, rent, insurance and repairs, that you can deduct as a home-office expense.

The amount of your home-office deductions is limited to the net income from your business after all your other business expenses are subtracted. Home-office deductions cannot create or increase a net loss from your business.

As these various steps indicate, mapping a sound year-end tax strategy is as important as having a well-thought-out business plan. Not only will the strategy help reduce your yearly tax bill, it also will avoid those last-minute surprises when tax time rolls around. **■**

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Tom Clancy: "By God, I'm going to do it."

By William Hoffer

Is there more than one rainbow to chase? Having become successful at one enterprise, is the business person locked into it for the rest of his or her life?

Tom Clancy, 40-year-old father of four, does not believe so. "There are two kinds of people in the world," declares the small-town insurance agent who became a best-selling author of military thrillers and a favorite spokesman for the proponents of a hard-line defense strategy. "There are people who go for the dream and either succeed or fail. Even if they fail they succeed, because at least they tried."

"But if you're the other kind of person, afraid to go for the dream, then about the time you retire, you'll have the condo down in Florida, and you'll be down there in the elephant graveyard waiting to die, and you'll think, 'God, what if when I was 30 I had gone ahead and sailed around the world or bought that airplane I always wanted to buy?'"

That type of "what if" question arises, Clancy says, because of what he sees as a paradox in the entrepreneurial spirit: Men and women who start their own businesses have the courage to assume great risks, but, once they succeed, many lose the spirit of adventure and concentrate on consolidating their gains.

In 1982, Clancy, then 35, had fallen into the latter pattern. Business was humming along in the offices of the O.F. Bowen Agency in Owings, Md., writers of auto, fire and casualty insurance. Clancy had bought the business from his wife's grandmother for about \$125,000 and found that he could handle the daily routine in a matter of hours.

This gave Clancy time to reflect.

"I was in that contemplative mood that comes to us all at least once a day," he recalls. "You're sitting down when it comes. I asked myself for about the hundred thousandth time, 'What are you going to be when you grow up?' and all of a sudden it hit me: 'You are grown up, and you're stuck! You're comfortable, but you're stuck in a boring job.' I didn't have anybody to blame but myself. I'd made my own trap, I had kids I had to support, mortgage payments and a business to pay off."

Clancy had always been a dreamer.



PHOTO: T. MICHAEL KEZA

No one, least of all Tom Clancy, expected the tremendous sales that were generated from a first novel written by the owner of a small-town insurance agency.

Fascinated with the military, he had longed for a career as an officer, but had been thwarted by severe myopia. Instead, he became an avid reader of military journals. He had yet another fantasy—to become a writer. His one effort in that direction had not been successful. While a student at Baltimore's Loyola College, he had written a science-fiction story about a tiger that turned out to be more intelligent than a hunter suspected. He sent the story to *Analog* magazine, but it was rejected.

As the years passed, Clancy's dream of being a writer languished. He graduated with a degree in English, but the responsibilities of marriage prodded him toward the workaday world. He worked for the Hartford Insurance Company for several years and, after taking over the O.F. Bowen Agency, found it exciting to be running his own business. Still, his dream persisted.

In his circle of friends and clients, Clancy numbered many military personnel who were, or had been, stationed at a naval installation near Owings. Through them, he met additional service people.

Combining his interest in military affairs with his writing ambitions, he wrote an article detailing an alternate basing plan for the MX missile system. The article was published in one of the most prestigious military publications, the U.S. Naval Institute's *Proceedings*. As it is for many individuals, the sight of his byline in print was a powerful catalyst to further efforts.

He had been thinking for many years that there was a literary possibility in the real-life attempt of a Soviet frigate crew to defect to Sweden. In Clancy's still-to-be-written version, an entire Russian submarine would attempt to defect to the United States.

The project moved a major step closer to reality through a chance lunch in 1982 with a naval officer whose conversation turned at one point to stories about the personalities of submariners.

"What I didn't know is what kind of person goes to sea in a ship that's supposed to sink," Clancy recalls. "I found out that they're pretty much the same as fighter pilots, insofar as they have the same indecent sense of personal invincibility, the same kind of confidence, the 'scarf and goggles' effect. I never realized that. When I found it out I said, 'Well, gee, I know test pilots. I've met an astronaut. If they're just like that, I can write the story.'"

Returning to his office, Clancy made a decision that would rock the publishing world: "I decided, by God, I always wanted to write a book. I've got the time. I'm my own boss. I'm going to do it. And I did it."

Working without an outline, stealing time from his insurance business, Clancy plunged into the project. He found it relatively easy to research technical details concerning modern submarine operations. The information was readily available in military publications such as *Combat Fleets of the World* and *A Guide to the Soviet Navy*, and he supplemented it with insights gained from studying popular war games. Throughout his labors, friends nodded politely and said, "That's nice."

Clancy did not set out to write a best-seller. His goal was neither fame nor fortune; rather, he found delight in the

What leads some entrepreneurs on to new challenges and others to stay in a rut? The best-selling author of three novels, including *The Hunt for Red October*, has some ideas based on experience.



work itself. As he pounded away determinedly at the keyboard of an IBM Selectric, he gloried in the rekindled spirit of the adventurer. He was finally chasing an entirely new rainbow.

When the manuscript was finished, Clancy drove to the Naval Institute Press in Annapolis, which had announced its interest in publishing selected, specialized fiction, handed the manuscript to an editor and drove home. Three weeks later, the editor asked him to rewrite it.

Clancy was encouraged enough to purchase an Apple II computer for the second draft, which the Naval Institute published in October, 1984, as *The Hunt for Red October*.

The book quickly developed a following among Washington's military establishment. The technical details were so accurate that many wondered openly about Clancy's sources. The book came to the attention of President Reagan, who commented publicly that it was "my kind of yarn."

That offhand presidential remark put *The Hunt for Red October* on the *New York Times* best-seller list, where it enjoyed the rare distinction of being both a hard-cover and soft-cover best-seller simultaneously. It also rocketed Clancy into the major leagues of publishing. He signed a three-book deal with G.P.

Putnam's Sons that resulted in *Red Storm Rising* (the story of a non-nuclear World War III, realistic enough that it is now used as a textbook at the Naval War College) and his most recent military-political thriller, *Patriot Games*, which reached the best-seller lists three weeks before its official publication date, August 7.

Patriot Games is the story of Jack Ryan (hero of *The Hunt for Red October*) and his involvement with Prince Charles and Lady Diana, as all become targets of a Northern Ireland terrorist group. It reflects the author's studied, personal views on terrorism and gives him the opportunity to air his views to a world that would otherwise pay little attention to an insurance agent.

"First of all," he declares, "any act of terrorism that happens within the borders of your own country should be treated as a crime. These guys are out committing murder, and you should treat them like murderers. Arrest them, take them in front of a judge and a jury, convict them, lock them up forever. Don't say they're soldiers; don't say they're politically motivated activists. Because they're not. They're street hoods. They're scum."

"In the international sense, state-sponsored terrorism should be treated as a form of low-intensity warfare. If you identify who is doing it to you, go

after them, big time. We haven't learned how to do that yet. We should have hit Libya every night for a week, just to let them know we were serious."

Clancy's next topic is the Strategic Defense Initiative, or "Star Wars." "I think SDI is a great idea," he says. "We've got to find a better way to keep the peace. The system we have now just isn't sane. There's got to be a better way, and I think SDI's a better way."

Life has changed drastically for the insurance agent from Owings. For one thing, he works harder as a writer than he ever did in the agency business. His commercial background causes him to view writing as a legitimate second career—a business—rather than an avocation. He writes in his home-based office from 8:30 a.m. to mid-afternoon, laboring on weekends if a deadline approaches.

For a time, even after he found an overflowing pot of gold at the end of his rainbow, Clancy continued to spend a day or so each week at the insurance agency. But he is too busy now, between writing his next book and traveling the world to publicize his work. His wife, Wanda, runs the agency, which is still profitable, although Clancy no longer has the balance-sheet figures at his fingertips. He is too busy living his fantasy. Putnam's recently extended his contract to include a fifth book.

Clancy paused one afternoon recently to reflect upon the transferable lessons he has learned from the incredible events of the past half decade of his life. He has a simple message for the nation's business people:

"Nothing is as real as a dream. And if you go for it, something really good is going to happen to you. You may grow old, but you'll never really get old. Because if you hold on to the dream you had when you were in high school and college, you have a fighting chance to stay the person you were. Just keep chasing after the rainbows, and you'll stay young forever."

"In America, there ain't no excuse. You can go out and do anything you damn well please if you try hard enough." ■



To order reprints of this article, see page 9.

Direct Line

Answers to questions about business plans, labor-management reports, locating retailers and starting a newsletter.

Finding The Right Manufacturer

I want to open a clothing store specializing in clothes for people with athletic physiques, such as body builders and football players. Do you know of any such clothing manufacturers?

S.N., Hastings, Neb.

The American Apparel Manufacturers Association, the largest such trade group, regularly polls its members about the types of clothing they make. But it doesn't ask specific questions about clothes for people with muscular frames. It does ask about production of sports and active wear and will provide names and addresses of members who make these garments. Write the association at 2500 Wilson Boulevard, Arlington, Va. 22201.

Advice On A Budget

Before they hand over any money, venture-capital groups require a prospective business to demonstrate sound management, a marketing strategy, competitive analysis and projected balance-sheet and cash-flow statements.

Where would I get such information? A management consultant said he would charge \$18,000 to produce it. Most start-ups don't have that kind of money.

A.L.J., Juneau, Alaska

A low-cost resource is the "Small Business Reporter," a series of 17 booklets published by Bank of America. Topics include how to start and finance a business, how to avoid management pitfalls and how to formulate financial statements.

The guidebooks sell for \$5 each (postage included). For a list of titles and an order form, write to Small Business Reporter, Bank of America, Department 3120, P.O. Box 37000, San Francisco, Calif. 94137.

Access To Records

How can I get a labor-management report on a particular labor union? Are such reports available to the public?

S.T., Washington, D.C.

Yes. The Freedom of Information Act entitles you to receive copies of labor-management (LM) reports. Labor organizations and union employers are re-



ILLUSTRATION: JOHN HENRY

quired by the Labor-Management Reporting and Disclosure Act of 1959 to submit annual LM reports, which disclose certain financial transactions and administrative practices. The reports also serve to help prevent abuses in the administration of trusteeships by labor organizations and provide standards for labor organizations' officer elections.

Write or call the Public Disclosure Department, Room N5616, Department of Labor, 200 Constitution Avenue, N.W., Washington, D.C. 20210; (202) 523-7393. There are many types of LM reports, so specify what you are looking for. The cost is 10 cents per page, and a bill will be included with your purchase.

Making Business Contacts

I am starting a wholesale line of tie-dyed T-shirts with hand-painted animals on them. I would like to contact some stores in Florida where I could sell them. How can I contact potential buyers?

S.A., Westport, Mass.

There are two ways to locate retailers in Florida. Write the state Chamber of Commerce, P.O. Box 11309, Tallahassee, Fla. 32302, and request a copy of "People Under the Sun," a free booklet listing all the state chambers and major statewide organizations. You can then call or write individual chambers for assistance.

Second, the Bureau of Business Assistance of the state Department of Commerce recommends that you go to

a library that carries Yellow Pages for Florida and copy the names and phone numbers of business prospects. The bureau does not keep its own list of retailers.

The Scoop On Newsletters

Where can I get information regarding the legalities, liabilities and logistics of the publishing business? I am interested in starting a newsletter.

G.C., Aberdeen, N.J.

The Newsletter Association has just what you need. It produces a free information package with background on the newsletter business and practical advice about how to start your own publication. Write the association at 1401 Wilson Boulevard, Suite 403, Arlington, Va. 22209.

Home-Shopping Bandwagon

I want to start my own cable-television program like Home Shopping Network. Can you give me any information on where I might start?

K.B., Port Neches, Tex.

The originators of home cable shopping started small, usually as programs broadcast by local cable companies. Some grew large enough to take over local channels, and a few grew into nationwide networks. As with any hot new idea, copycats came along and offered cable systems even more choices for home-shopping programs.

Consequently, competition has made it difficult for any new home-shopping program to get air time, according to the National Cable Television Association in Washington.

The cable association recommends that you hire a consultant to help you get started. ■

How To Ask

Have a business-related question?

Write to: Direct Line, *Nation's Business*, 1615 H Street, N.W., Washington, D.C. 20062. Writers will be identified only by initials and city. Questions may be edited for space. All replies must be given in this column.

Agriculture On The High Seas

By James C. Webster

Hundreds of U.S. agribusiness ventures are exporting expertise, technology and equipment.

American agricultural exports, measured in tons of wheat, corn and soybeans, have taken a highly publicized beating in the 1980s. They dropped from a peak of \$41 billion in 1981 to this year's estimated \$26 billion.

But, almost without notice, hundreds of U.S. agribusiness ventures—some of them operations of one or two individual farmers—have been creating a new export market.

They're selling American expertise, technology and equipment—mostly to small developing countries in Latin America, the Caribbean, Africa and Southeast Asia—in increments of thousands or hundreds of thousands of dollars.

Their efforts don't generate the headlines or the millions of tons and billions of dollars that come from a Soviet grain deal.

But neither are they one-shot events; they're long-haul projects that may create new markets for U.S.-made farm equipment and supplies and spur development in poor countries. Washington trade experts say those countries offer the best potential growth markets for even more exports of U.S. farm and manufactured goods.

Projects under way as a result of activities of hundreds of agribusiness firms include a bakery in China, a modern rice farm in the Ivory Coast, a hybrid-seed-production center in the Philippines and the production of citrus fruit and cut flowers in the Dominican Republic. The sale of supplies for processing meat and raisins to the Soviet Union is another sign of the increasing export activity in American agriculture.

While it's easy to measure the exports of "bulk" agricultural commodities on which most of the public attention is focused, no government or private organization appears to have a good estimate of the extent of exports of agriculture-related services, technology and equipment.

"It's probably imperceptible, but it's happening," says Kelly M. Harrison,

James C. Webster, a former assistant secretary of agriculture, is editor and publisher of The Food & Fiber Letter, a weekly analysis of agricultural and trade policy.

Frank Crane (left center) of the U.S. firm Land O'Lakes joins Ecuadoran President León Febres Cordero (right center) at the opening of a plant near Quito where a milk substitute for

feeding calves is being manufactured. Under a USAID project, Land O'Lakes, inventors of the milk replacer, will supply components for the product to Ecuador.



PHOTO: LAND O'LAKES

president of an international consulting firm in suburban Washington and former president of the American Society of Agricultural Consultants International (ASACI).

"We are coming around to an understanding in the United States that we have something more to sell than corn and beans," Harrison says. "There are no dramatic examples, but I think it's a coming thing. There are profit opportunities and a need [in developing countries] for know-how."

One major U.S. food company that sees profit opportunities in developing countries is Land O'Lakes, Inc., the regional farmer-owned cooperative based in Arden Hills, Minn.

Under a U.S. Agency for International Development project, Land O'Lakes is supplying Ecuador with components of milk replacer to feed calves, thereby making more cows' milk available for

human consumption. The replacer is a Land O'Lakes invention that combines milk powder with animal fats, trace minerals and antibiotics into a powdered product that is nutritionally equivalent to milk. The replacer is supplied in a commercial transaction to a plant which Land O'Lakes' technicians helped build at Machachie, near the capital city of Quito. The U.S. government is providing surplus nonfat dry milk to the project.

The project is part of a broader program to help Ecuador gain self-sufficiency in milk production, ending its need to spend scarce foreign currency to import milk products for human consumption.

Eventually, says H. Lee Schatz, Land O'Lakes' director of international-development operations, a more efficient dairy industry in Ecuador will become a better customer for U.S. grain and other cattle-feed ingredients, milking and milk-processing equipment, genetically superior animals or embryos and animal drugs.

Douglas Petty, manager of program development for Land O'Lakes' international operation, discovered the opportunity last year during a U.S. Chamber of Commerce-sponsored meeting of U.S. agribusiness leaders with a private-sector delegation that accompa-

Agriculture On The High Seas

nied Ecuador's President León Febres Cordero on a visit to Washington.

The initial goal, Petty says, is to substitute the replacer for about 100,000 liters (about one third) of the milk now consumed by calves on farms. He estimates that, if the goal is reached, farmers would realize about \$2.7 million more from milk sales.

The replacer also will allow Ecuador's dairy farmers to feed male calves to a weight of about 800 pounds each, adding another \$24 million worth of cattle and 80 million pounds (live weight) to the country's beef supply, Petty says. He estimates that dairy farmers in Ecuador now slaughter about 100,000 male calves at birth every year

to avoid the cost of feeding them milk.

Although Land O'Lakes expects to earn a profit on the business, Petty says a major goal for the cooperative is to become known in Ecuador. "We'll have good contacts and will be in a position to make other commercial transactions," he says.

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One of the most active organizations pursuing development-related trade opportunities for U.S. agribusiness is the American Society of Agricultural Consultants International, based in McLean, Va. A visit to Costa Rica by a team of U.S. experts organized by ASACI and funded by USAID's Trade and Development Program uncovered the potential for U.S.-provided expertise to develop a strawberry-handling-and-marketing system to fill a wintertime void in the U.S. strawberry market.

Harvey Campbell, Bakersfield, Calif., agricultural consultant, and four associates formed Pan American Technical Resource Investment Corporation (PATRIC) to work with Cooperativa Agrícola de Productores de Exportadores de Fresas (COPAFRESA), a producers' cooperative in Costa Rica.

The venture overcame what PATRIC partners viewed as serious post-harvest handling, packaging and shipping deficiencies to export 188,275 pounds of fresh fruit, worth about \$400,000 at wholesale, to the United States during the 1985-86 winter season.

Although the U.S. venture and the Costa Rica cooperative parted company after the first year, COPAFRESA last winter shipped about 250,000 pounds, representing nearly one fifth of the country's strawberry production, to the United States, according to James W. Wheyland, a PATRIC partner in San Diego.

Former ASACI President Harrison says the barriers to success of any new venture in a developing country are substantial. However, he says: "If we create a few long-term sustainable businesses that buy from the United States—maybe only 1 in 10—we have a pretty good batting average."

"It's difficult for Americans to go down there and operate the way we're used to," says Wheyland. "Their business is conducted in a different way; they don't have the infrastructure we're used to, and there are cultural and language barriers."

"But those problems are really opportunities, because whoever masters them does a real service." ■

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AT YOUR TOUCH

Innovators

A magical way to acknowledge employees; managerial pitfalls; future entrepreneurs' views.

By Sharon Nelton

Casting A Spell Over Employees

"You are the magic that makes our business work," Robert D. Horner told 4,300 employees when Citicorp announced in October that it was unifying many of its mortgage operations into a single entity, Citicorp Mortgage, Inc.

By the time the employees got this compliment from Horner, chairman of the new organization, they must have believed it. For an entire month, they had been subjected to a mysterious "You Are the Magic" campaign preparing them for the company changeover.

First it was magic postcards mailed to their homes. Employees had to immerse the cards in water to see the drawing of a magician about to coax a bunny out of a hat and the secret message: "Don't pull your hare out yet!" Something was coming on October 1, the card warned.

Magic tricks, gifts and hints designed to create curiosity appeared at employee work stations in the weeks that followed. When employees arrived at work at corporate headquarters in St. Louis on October 1, each found a personal "magic box" containing tricks,



ILLUSTRATION: CAMERON GIBLACH

magic cards, a wand and an invitation to a party that day.

Buses transported them to Kiel Opera House for a box lunch and, of course, a show featuring magician Harry Blackstone, Jr.

"You Are the Magic" celebrations were held simultaneously in field offices, and Blackstone's show was transmitted live via satellite to employees in

21 locations. In an illusion designed for the event, Blackstone caused Horner to appear out of thin air wearing a sweatshirt with the company's new name and logo.

Employees each got a sweatshirt just like Horner's. "There are no magic formulas for our success," he told them. "Rather, you are the magic that makes the Citicorp Mortgage team work."

Fatal Mistakes

First it was the seven deadly sins. Now it's *13 Fatal Errors Managers Make and How You Can Avoid Them* (Berkley Books), by W. Steven Brown, founder of an Atlanta company that markets training videotapes and seminars.

One of those mistakes—Fatal Error No. 12, to be precise—is recognizing only top performers. "All profitable companies build their businesses on good, reliable middle producers, plus a few superstars," says Brown. Too often, companies take their reliable middle producers for granted. These people need just as much recognition as your superstars, says Brown.

Tomorrow's Entrepreneurs

Will today's college students continue the wave of entrepreneurship we have experienced in the 1980s? A study suggests they will.

The survey, sponsored by I Can't Believe It's Yogurt, a national frozen-yogurt franchise based in Dallas, explored the attitudes of 502 college students toward entrepreneurship.

Thirty-seven percent said they want to be entrepreneurs while another 30 percent said "maybe," and 80 percent said that being an entrepreneur would be more exciting and adventurous than working for another company.

Areas the students see as having the best potential for starting a business

are computers (41 percent), new consumer products (27 percent), the service industry (26 percent), health and medicine (23 percent) and entertainment and leisure activities (22 percent).

Despite their enthusiasm for running their own businesses, 61 percent believe it is harder to become an entrepreneur today than it was a generation ago. More than half of those who want to be entrepreneurs said that lack of financial backing would be the major obstacle.

The study, conducted by Research & Forecasts, Inc., New York, found that the would-be entrepreneurs are more idealistic about entrepreneurship. For example, they are more likely to believe that entrepreneurs contribute to society without exploiting it.

For further information, write: IC-BIY Survey, 110 E. 59th Street, Suite 1200, New York, N.Y. 10022. ■

The insurance company that started business on a handshake and a promise, is one of the most trusted names in commercial insurance today.

In 1920, a small group of contractors decided to take responsibility for insuring their projects into their own hands. Because of the mutual trust and respect among them, all it took was a handshake to guarantee the job.

Commercial insurance is considerably more complicated today. But at Industrial Indemnity, some things have remained the same.

Like the spirit of innovation and leadership that motivated company founders to find new and more cost-effective means of managing their own insurance. Their "net cost approach" for risk management, developed 50 years ago, now works for thousands of policyholders.

Today's Innovations.

That same spirit of innovation is evident today as Industrial is recognized not only as the leading insurer of workers compensation in the West, but as one of the largest property and casualty commercial companies as well.

Industrial continues to earn its well-deserved reputation for leadership with specialized services such as its exclusive Medical Cost Containment program,



which helps control workers compensation claims and lower net costs. Special Risk Control services apply up-to-the-minute technology in the prevention of injuries and property/liability losses. And cost-effective Rehabilitation plans help people recover to their fullest potential.

All of Industrial's distinctive programs and services are continually evaluated based on their effectiveness in controlling costs and delivering customer satisfaction.

Tomorrow's Innovations.

Industrial Indemnity has one continuing goal—to be "the best" in commercial insurance. 2700 dedicated professionals are committed to making this goal a reality.

Finding new ways to manage risks at lower costs is still the commitment. Industrial makes to its wide variety of policyholders. Industrial has learned the way to earn and keep the trust and respect of its customers is through consistent, outstanding performance. Today, at Industrial Indemnity, you can still count on our handshake to guarantee the job.

For more information, call your independent agent or broker. If your agent/broker doesn't represent Industrial, please call the Division Manager at your local Industrial Indemnity office for the names of several professional agents and brokers.

Industrial Indemnity

A collection of office supplies including a hard hat, a pen, a paperclip, and a newspaper.

Industrial Indemnity
a Crum and Forster organization
A XEROX Financial Services Company
Home Office: San Francisco

Smart Selling

By Nancy L. Croft

Take A Cue, And Dive In

Jim Graven knows a regulation-size pool table when he sees one. He makes his living manufacturing them. But his Louisville, Ky., business soured a few years ago when a competitor started selling undersized pool tables at a discount price.

The competitor, who advertised the tables as regulation size, "knocked us out of \$30,000 the first month," Graven recalls. "We had to put a stop to it immediately."

In a predawn brainstorm, Graven came up with the idea of distributing measuring sticks 46 inches long so potential buyers could check dimensions of the competitor's product.

He telephoned a distributor of specialty advertising items, and 10 days later Graven began handing out the measuring sticks to prospective customers. Regulation pool-table dimensions—46 by 92 inches—were printed on the sticks. So were Graven's company logo and comparative-shopping suggestions.

"When a customer comes in, there's not much time to educate him about pool tables," says Graven. "But if we didn't close a deal, we could put the 'yardstick' in his hand so he could measure the competitor's table."

The result: Graven's business recorded a 28 percent sales increase over two years.

His experience represents one of the more aggressive uses in the growing field of specialty advertising.

The most common approach to such advertising is the printing of a company's logo, slogans or name on clothing, coffee mugs, key rings and other giveaway items. The technique is far from new, but the demand for such items has been increasing, says H. Ted Olson, president of Specialty Advertising Association International. This method of advertising has grown into more than a \$3-billion-a-year industry.

Specialty-advertising items typically are distributed free to customers and clients. "The purpose is to incorporate them into a marketing strategy so that

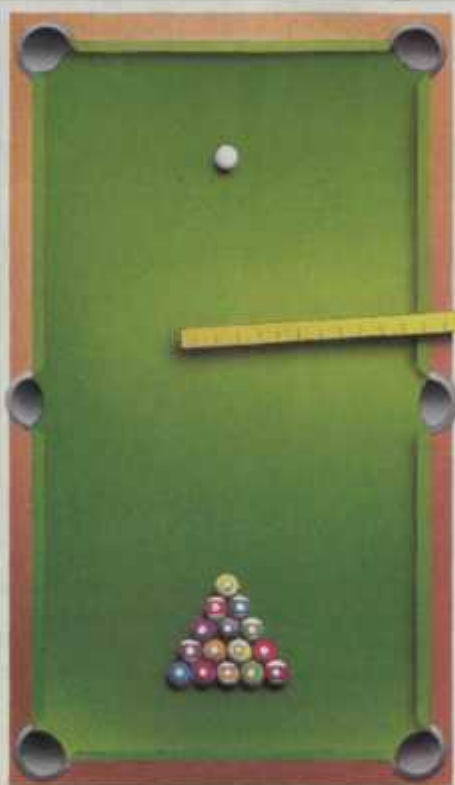


ILLUSTRATION: DALE GLASGOW

the items will be used often and will be associated with the company or a particular campaign," says Olson.

"Perhaps the greatest advantage specialty advertising offers to the small-business owner is its ability to reach a targeted audience," says Olson. "A smaller firm that sells to only 1,000 customers nationwide or a company that deals solely with wholesalers cannot economically reach such small targets with traditional advertising."

To attract the attention of personnel departments of large corporations, Williams Relocation Service, Tulsa, which helps transferred employees settle into new areas, chose a specialty-ad campaign using a "transplanting" theme. To stress the care it gives to uprooted employees, the company mailed empty flower pots imprinted with the phrase, "Official Transplanting-Cost Container." An attached brochure introduced the company's services.

On follow-up calls, salespeople delivered live plants for the pots. Of the 50 targeted companies, 45 arranged appointments with Williams' salespeople.

But a campaign based on specialty



PHOTO: DAVID R. LUTMAN

Jim Graven, of C.C. Steepleton Company, used a "yardstick" to put his competitor behind the eight ball.

advertising can fail if companies choose items that are not appropriate to the image they want to portray, says Byrne Armiento, a senior account executive with Peggy Tagliarino Public Relations—a New York-based firm which has developed specialty-advertising campaigns for several small companies. For instance, a jewelry store wanting to introduce a new line of gold watches would not give away plastic key chains.

"Business owners should also choose unusual and useful items that make their companies stand out," she says. "There are only so many paper weights and coffee mugs a person can put on his desk. Once the person's desk is full, he starts tossing them out."

The well-planned specialty-advertising campaign, on the other hand, can give small businesses almost immediate results for very little investment, Olson says. In Graven's case, buying a one-time newspaper ad would have cost \$1,500. A 30-second, prime-time commercial on a local television station would have cost \$500, not to mention production costs. By using the measuring sticks to sell pool tables, Graven not only spent far less—\$100 for 500 sticks—but his unique sales campaign fixed his company in customers' memories.

For advice on creating a specialty-advertising campaign, look under "Advertising Specialties" in the phone book. There are more than 6,000 specialty-advertising distributors nationwide. Another source to call is Specialty Advertising Association International in Irving, Tex., at (214) 580-0404.

Some innovative marketing tips on specialty advertising, improving ad responses, computerized help, video displays and new packaging.

Food For Thought

The Salinon Corporation, a Dallas-based marketing-consulting firm specializing in creating brand names, has some "brain food" for headline, slogan and jingle writers. The firm has developed a software package of techniques to trigger ideas for memorable promotional expressions.

With 25 databases containing more than 33,000 expressions from books, movies, quotes and proverbs, Headliner



ILLUSTRATION: DALE GLASGOW

makes it easy to find and modify an already popular expression to fit the needs of a particular company, product or service. For example, for a ski resort, Headliner produced "more powder to you" and "snow ahead, make my day."

For more information, contact the Salinon Corporation, 7430 Greenville Avenue, P.O. Box 31047, Dallas, Tex., 75231; (214) 692-9091.

Something For Nothing

Business people looking for some free advice on how to improve their advertising can find it in a brochure entitled "31 Ways to Get More Inquiries from Your Ads." It offers strategies for creating

Let Your Fingers Tour New England

New England's tourist-oriented businesses are aiming a new marketing campaign at a logical audience—travelers. Interactive videodisc/videotex information systems have been built into six colorful kiosks at Boston's Logan International Airport.

Television screens at each kiosk offer travelers a look at New England tourist spots, community events, sports and recreational activities. Users touch the screen to select categories they'd like to know more about.

For example, a traveler interested in sports would touch that category on the screen. Within seconds, the user is whisked away through state-of-the-art video with graphics and a voice-over—much like a television commercial—to Fenway Park for highlights of a Red Sox game. Game schedules, directions and other information flash onto the screen.

Although the system was designed to generate greater interest in New England tourism, the retail industry will also benefit from plans to expand the system for commercial use and place more kiosks in locations outside the airport.

"This system is unique because it is networked and on-line, which allows us to constantly update information," says Herman Budnick, whose Cambridge-based, video-communications firm, Budnick & Associates, Inc., designed and developed the system for the Massachusetts Port Authority.

"In one recent weekend, the system at Logan Airport recorded over 70,000 touches," he reports.

ads that generate more responses, leads, sales and profits.

The brochure is written by Bob Bly, a New York University instructor and free-lance copywriter specializing in direct-response advertising. Bly is also the author of *The Copywriter's Handbook: A Step-By-Step Guide To Writing Copy That Sells* (Dodd, Mead).

One of the brochure's suggestions for boosting sales is to offer something

Package Packaging

That new gadget you've wanted shows up as a present—but your elation turns to frustration.

The reason: You can't use it until you buy batteries for it.

Eveready Battery Company has just introduced a way to help prevent this problem in the future—festive packages of Gift Mate batteries.

Greetings and designs appropriate for various occasions appear on the Gift



Mate batteries, which can be attached to gifts.

The packages are suitable for display in gift shops and card stores, which usually do not stock batteries. In stores that carry battery-powered items, the packages can remind people who buy battery-powered gifts to get the batteries, too. Gift Mates represent another example of how innovative packaging can provide a competitive edge.

free in an ad, such as a free product sample, report, analysis, consultation, estimate or demonstration.

Bly, who is also in business as a consultant on advertising copy, takes his own advice and offers free copies of the brochure. To obtain one, send a self-addressed, stamped business-size envelope to: Advertising Inquiries, 174 Holland Avenue, New Milford, N.J. 07646. ■

Passing On The Dream

By Sharon Nelton

It cost John L. "Jack" Bush \$80,000 to take his wife, his children, their spouses and other relatives—16 in all—to Hawaii for a week-long family-business seminar led by Léon A. Danco last spring.

But Bush, president of Linwood Mining & Minerals Corporation in Davenport, Iowa, thinks that if his family can implement what they learned from Danco and from the management, legal and financial experts that Danco brought with him as "faculty," it was worth every dollar.

Dayton business owner Clayton L. Mathile keeps three books on his bedside table: the Bible, Ayn Rand's *Atlas Shrugged* and Léon Danco's *Beyond Survival: A Guide for the Business Owner and His Family*.

Mathile, president and CEO of The Iams Company, a pet-food manufacturing firm, is a client of Danco's Cleveland consulting firm, the Center for Family Business. Danco has helped Mathile organize a board of directors and take other steps that have helped the company grow rapidly in recent years.

"He takes the time to understand me and others like myself, and he has empathy for what we're into and what we're doing," says Mathile.

It is that empathy—the ability to communicate to entrepreneurs that he knows they are "lonely, tired, scared, harassed and confused"—that has earned Danco his reputation as the country's foremost authority on family business.

"There's no doubt that Léon is the founding guru of the whole field of family business," says John L. Ward, a friend of Danco's and professor of free enterprise at Loyola University of Chicago. He credits Danco with recognizing privately held business as a "phenomenally major force" in our society and with developing a theory about the life cycle of family businesses and how they behave. "The whole notion of perpetuating private enterprise through the family firm was really championed by Léon," says Ward.

"Danco is clearly one of the pioneers in this area," adds W. Gibb Dyer, Jr., an assistant professor of organizational behavior at Brigham Young University in Provo, Utah.

The profusion of family pictures on the wall of his office at home is testimony to the value that Léon

Danco places on loving relationships. Without love and faith, he says, a family business won't succeed.



PHOTO: T. MICHAEL KEZA

A feisty entrepreneur who got into the business of helping family enterprises solve succession and other knotty problems 25 years ago, Danco shuns being called a "guru," even by his friends. But he says it's an "honor" when people think of him as the one who first gave serious attention to family business, and he laughs heartily when he recalls that someone once called him "the Margaret Mead among the wealthy aborigines."

Danco has what he calls a "messianic urge" to help successful entrepreneurs fulfill their desires to pass on their businesses to their children—in essence, to have their businesses outlast them. "My dream is that your dream comes true," he tells them.

He didn't come out of a family business, however. Born in Fairfield, Conn., he is the son of Belgian immigrants—English is his second language, after French. His father was a pharmaceutical company executive, and Léon graduated from Harvard College at 19 with an A.B. in the classics.

By the age of 21, he was serving in World War II as the commanding offi-

cer of a U.S. Navy cargo ship in the Southwest Pacific, and by 24, he had received an M.B.A. at Harvard Business School and had married Katharine Leck, a nurse he met through a college friend.

After a series of jobs in business and a stint in academia that took him and Katy to Cleveland, he turned to management consulting on his own. Since 1962, when he began consulting with family firms, he has been prodding business owners to attend to the continuity of their companies.

Business owners view retirement as "somewhere between euthanasia and rejection," he says. Nevertheless, he urges them to start preparing for it when they are young, teaching their children to love the business, training them to take it over, getting succession measures in place and planning for an active retirement that excludes meddling in the company.

In his years of consulting, Danco has seen it all: fathers who think their sons are bums, employees who say they'll

The champion of family business faces his own mortality and the need to preserve his vision.

quit if Junior takes over and even a son who told his father he'd never see his grandchildren again unless the son was chosen to succeed him.

He added a Ph.D. in economics from Case Western Reserve University to his credentials. But what he really is, he says, is a sort of a cultural anthropologist who ends up working as much with emotional issues in families as with management issues in their businesses.

Danco's approach to business owners was honed even sharper when, at age 47, he was flying his Beechcraft Bonanza V-35 and barely survived a crash. ("I don't have the family nose anymore. This is all silicone. My face was wiped off.")

He uses the incident with audiences of business owners, telling them, "You don't have to be old to be gone." What he says he tries to do is convince the entrepreneur "to have the guts to solve the problem now rather than have the grieving widow and Rasputin—whatever that may be—solve it after he's dead."

Danco says he has "directly influenced" succession in the businesses of the estimated 6,000 people who have attended his seminars over the years. He has reached countless others through hundreds of speeches. In addition to *Beyond Survival*, he has written *Inside the Family Business* and (with Donald J. Jonovic) *Outside Directors in the Family Owned Business*. Katy Danco has extended Léon's message with her own book for wives, *From the Other Side of the Bed: A Woman Looks at Life in the Family Business*.

In the works is a 13-week series of programs that he will host for public television.

Danco gets his ideas across with tough talk and humor. In his vernacular, relatives who work in a family business are "nepots," a son-in-law (the guy who's in bed with your baby) is the "gorilla" and a daughter-in-law, because she can wreak so much havoc in a family business, is the "tarantula."

He often says, "People say, 'Well, if I should die'... like they had a choice." Audiences love it.

He'll frequently present an organizational chart that has boxes on it marked

Katy and Léon made the backyard chess set themselves. They have lived in their Pepper Pike, Ohio, home for 30 years, and they celebrated their 40th anniversary in August.



"The Board? Mother?" and "The little old lady with the moustache who hides the books." Jail cells at the bottom are labeled "The Help."

Business owners see themselves in the caricature chart, Katy Danco once told a reporter. "By using it, Léon puts his finger in your eye and pushes. But you don't realize how much it hurts because you're laughing."

Katy is his perfect foil. She knows firsthand that entrepreneurs have sizable egos and are "workalovics," often not giving sufficient time to their families. Frequently speaking side by side with Léon, she asks audiences how she can compete with all the adoration he is given and tells of the time she gave him a recording with five minutes of applause, encouraging him to stay home and listen to it.

And his audiences do adore him.

"I think he's a real jewel," says Alice Howard, co-founder and vice president of Applied Computer Research, Inc., in Phoenix. She and her husband, Phil, have been to three Danco seminars. She finds value in having a chance to talk with others in the same circumstances.

"The family business is an island, really," she says. Friends you knew before you started the business don't understand you; your interests change; pretty soon, you've got nobody to talk to. "Léon Danco recognizes that."

Danco won't take clients he doesn't like or clients he thinks he can't help. One couple jokes that his three dogs have to approve of you before he will take you on as a client.

He looks for evidence of love in a family and a personal faith—they give an entrepreneur "a reason to do things." (He was reared a Roman Catholic; Katy is Episcopalian.)

Now, at 64, Danco is facing his own mortality. Four months before he turned 62, he told himself he had 100 months left until age 70, the age at which he would retire—100 months in which to prepare for passing on his own dream.

Ironically, it won't go to his children, both in their 30s. Son Ty is an investment banker in New York. Daughter Suzanne is a homemaker and the mother of the Danco's two grandchildren. Her husband, Barry Doggett, "the original gorilla," is an executive with BP America (formerly Standard Oil of Ohio).

None of them is interested in taking over Danco's dream. Nor do they, Danco notes, "have my passion for it."

He would like to see the Center for Family Business become a nonprofit foundation run by "financially secure businessmen" who have already turned their businesses over to their successors. It could be a second career, but it would be a labor of love, utilizing all the skills they developed as business owners.

Following his own advice, Danco has been slowing down. He used to give 30-40 speeches a year; he has cut back to 10 to 20. While he will continue to hold seminars in Cleveland, the spring seminar in Hawaii was the last to be held there.

His work has brought him and Katy the good life—his speeches alone bring \$15,000-\$25,000 each. "Everything we've wanted, we've had. What we don't have, we don't want," he says.

Danco is a pioneer in a field that may be as hot in the coming decade as entre-

Passing On The Dream

Léon Danco's 12 Commandments For The Family-Business Owner

1. Thou shalt share thy dream with thy family.
2. Thou shalt inform thy managers and employees, "This company will continue forever."
3. Thou shalt develop a workable organization and make it visible on a chart.
4. Thou shalt continue to improve thy management knowledge, that of thy managers and that of thy family.
5. Thou shalt institute an orthodox accounting system and make available the data therefrom to thy managers, advisors and directors.
6. Thou shalt develop a council of competent advisors.
7. Thou shalt submit thyself to the review of a board of competent outside directors.
8. Thou shalt choose thy successor(s).
9. Thou shalt be responsible that thy successor(s) be well taught.
10. Thou shalt retire and install thy successor (s) with thy powers within thy lifetime.
11. Thou shalt settle thy estate plans NOW, because thou canst not take it with thee.
12. Thou shalt apportion thy time to see that these commandments be kept.

© The Center for Family Business

preneurship has been in the 1980s.

Alert universities are starting their own family-business centers (some inspired by Danco's work); more consultants are getting into the field; more family-business organizations are being formed; and more books on the topic are being published.

But when the history of family business is written, will Léon Danco have a place in it?

Loyola's John Ward says that what Danco has done has been important enough to win a Nobel Prize for economics, though that's most unlikely to happen. Danco's work is not heralded on the pages of the *Wall Street Journal*, but in small-town newspapers and trade-association journals.

And although Danco has not alienated himself from the academic community (most academic books on family business cite *Beyond Survival* in their bibliographies), he has kept his distance. He's made himself very accessible to business people, notes Brigham Young's Gibb Dyer, but not very accessible to the people who would like to follow him in the family-business field. He's known to decline invitations to academic conferences, sending his books instead.

Of those books, Dyer says: "People in family businesses find them very useful. They don't tend to be terribly useful for the researcher who is interested in building theories and models in family business. But, of course, that wasn't his purpose."

Danco says the business schools have "alienated the businessman" by studying him and dissecting him. "He doesn't want to be dissected; he wants to be helped."

For himself, Danco wants to help. But only in the short term. He views himself as the one who gets the business owner off the dime. "I see problems. I explain them." Then he prescribes the answer, whether it's to install a board of outside directors or make the kid get out of the business. But it's up to the business owner to take action.

If Danco is not remembered by the larger world of business, he will live on in the lives of the thousands of businesses he has touched, with his message carried down through the generations of men and women who follow their parents into business. ■

To order reprints of this article, see page 9.

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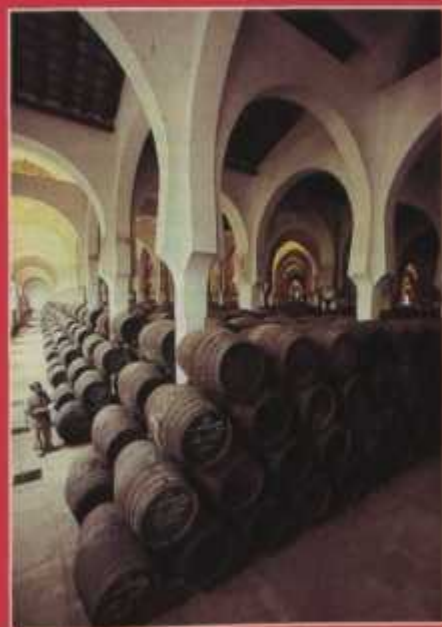
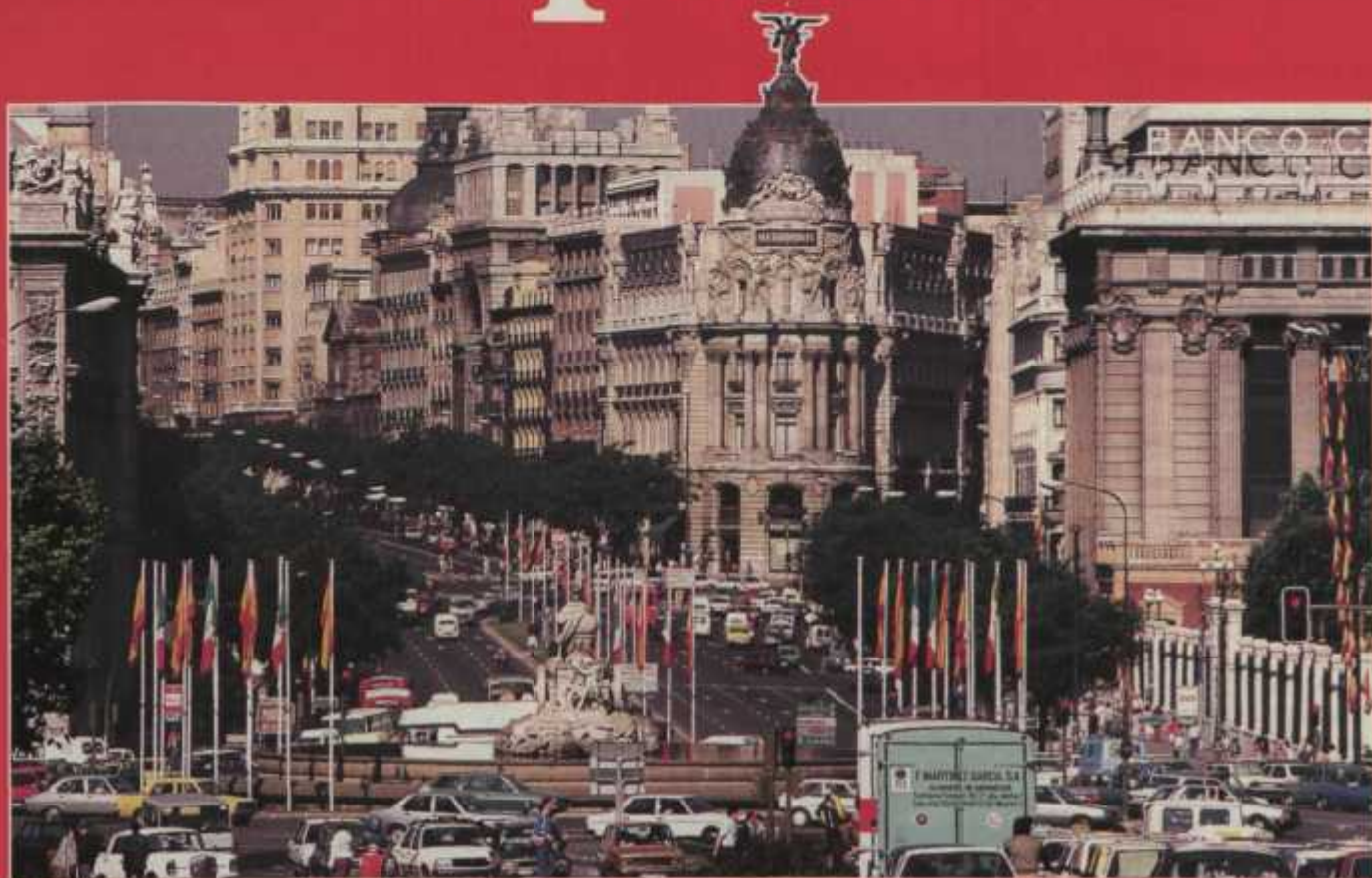
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DELTA QUEEN
AMERICAN VACATION

Spain



Shop Window To The World

By Tom Burns

A senior American banker, long acquainted with Spain, treasures the memories of a recent tour he organized in Madrid for a party of U.S. investors. "I could see their perceptions about the country changing by the hour," he says.

The banker took the investors to see the site of a \$200 million plant just north of the city where AT&T is to build semiconductors for the European market. He took them to see a NASA tracking station just west of the city. The investors visited an aerospace factory just south of Madrid where the USAF fighters in Europe are serviced and where part of Europe's Airbus is built, and they also toured a multinational headquarters that ran out eastwards from the southern suburbs.

In the evening the investors regrouped with their wives, who had spent the day touring midtown Madrid. They were fascinated by the quality design, the high fashion and the all-around sophistication of the Spanish capital's chic commerce. "They were expecting some sleepy Central American town, and they discovered Paris," chuckles the banker as he recalls the occasion.

For many the stock view of Spain revolves around images of castles set on arid plains; of ploughs pulled by mules, furrowing a baked soil; of peasant women in black; of the clicking of castanets and the mournful, howling song of flamenco; of the blood and sand of the bullring. It is a stock view, however, that is completely outdated. The clichés about Spain need to be radically overhauled.

Spain, to be sure, remains a country of outstanding natural beauty. It is a nation steeped in art and architecture and contains some of antiquity's best-preserved remains. But it is also a young country and a primarily urban, manufacturing and industrialized society. Spain is a modern,

Barcelona, the bustling capital of Catalonia, where, it is said, people in the streets walk faster than they do elsewhere. Certainly there is a clear

sense of pace, purpose and prosperity about the 1.7-million-population seaport.



PHOTO: ROBERT FRENCH—CLICK/CHICAGO

developed and increasingly prosperous nation. Per capita income is in excess of \$8,000 a year, and the gap is closing fast on, for example, Britain.

Strategically placed on the southwestern tip of the Old Continent and newly admitted to the European Common Market, Spain is meeting its growth target.

A number of big corporations took a carefully calculated bet on Spain more than a decade ago. In the 1970s, Ford Motor Company began to manufacture small hatchback cars near Valencia, on the Mediterranean coast. The plant is now extremely profitable and the linchpin of Ford's operations in Europe. General Motors took note of Ford's success and, at the beginning of the 1980s, set up its modern plant near Zaragoza in the northeast.

Such huge investments prompted a cascade of others. Three years ago, Japan's Nissan bought the Barcelona-based commercial-vehicle producer Motor Iberica and the following year West Germany's Volkswagen acquired Spain's public-owned auto manufacturer, SEAT. Spain was a key element in Volkswagen's strategy to consolidate its European market. Nissan's Barcelona plant, which produces

the four-wheel-drive Patrol vehicle, was the company's beachhead in Europe. A number of factors attracted the investments.

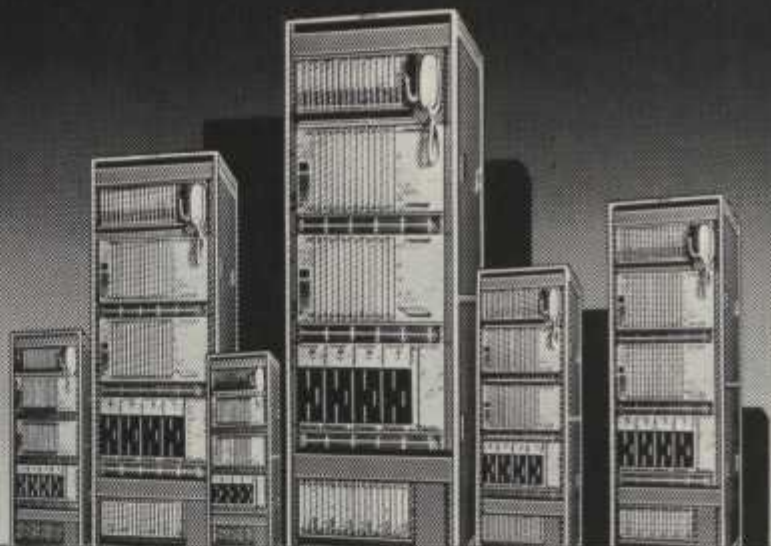
A key one was the existence in Spain of a highly skilled and motivated work force which has lower labor costs than in comparably developed European societies. In addition Spain currently boasts an extremely capable and well-trained generation of young executives and managers.

Those who are acquainted with Spain say the last four years represent a textbook study of a national economy correcting its faults and imbalances and then going on to give full opportunities to the operation of market forces. Between 1983 and 1987 Spain has drastically reduced inflation, streamlined its industrial sectors and opened its frontiers to capital inflows.

Spain's formal entry, on Jan. 1, 1986, into the European Common Market constitutes a milestone that points the path to increased growth. "Membership in the European community is a very big step forward," says Felipe Gonzalez, Spain's prime minister. Re-elected in 1986 for a second four-

Tom Burns is a free-lance writer based in Madrid. Advertising coordinated by Media International Service, Barcelona.

Cover photos: Madrid (top); the winery Domecq Sherry Bodega in Jerez de la Frontera (bottom left); Iberia, Spain's national airline (center); wheat harvest in Castille (bottom center); the town of Aigatocin, Andalusia (bottom right).



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The TESYS system can also serve as a basis for the implantation of various complementary public services of a wide range, such as Electronic Mail (Teletex and Datafax), Videotex and Electronic Funds Transfer Service.

TESYS supports the CCITT data transmission international standards.

The Spanish system TESYS allows the creation of public or private networks according to the international recommendations of CCITT, offering the best solution to its subscribers problems through Telematic.

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SPAIN.

Felipe Gonzalez, Spain's prime minister, says: "Nobody is going to recognize this country in 10 years' time."

year term, Gonzalez sets great store by the end of Spain's comparative isolation and its full integration into the Common Market. "Nobody is going to recognize this country in 10 years' time," he says.

The key indicators in Spain look very good now. There has been a spectacular turnaround. In December, 1982, Gonzalez's incoming administration devalued the peseta and let it float down against the dollar before tackling the inherent problems of the economy. By mid-October, 1987, the economic surgery was well over and the peseta was revalued upwards against the dollar and all major currencies. The peseta-dollar exchange rate was brought down to below the December, 1982, level. The monetary authorities at the Bank of Spain were in fact anxious to stem the capital inflows.

At present the peseta is as strong as anyone could hope for. The current account balance is showing a surplus of around \$2 billion for the third successive year, and reserves, already at record heights for Spain, had increased \$5 billion in the first half of 1987. The foreign cur-



PHOTO: DENNIS BRACK-BLACK STAR

rency reserves in Spain totaled \$245 billion by the fall of 1987 and exceeded the country's total foreign debt. What Spain offers is a good, stable currency, more-than-sufficient reserves and first-class borrowing resources.

Inflation, which was running at more than 14 percent when Gonzalez gained power in a landslide electoral triumph late

in 1982, is currently down to 5 percent, its lowest level since the 1960s. The government's target is to reduce inflation to 3 percent by December, 1988.

The inflation statistics are important; the consumer price index has traditionally served to rein in Spanish development. As late as December, 1986, there was a six-point inflation gap between Spain and its main trading partners, the United States and the European Community. By mid-1987 the gap with the major trading partners had closed to two points. Spain, which already has an edge due to lower production costs, is thus set to gain significantly in competitiveness.

There is considerable economic data that supports the increasingly upbeat view of Spain's business prospects.

By the first half of 1987 domestic demand appeared to be growing at a rate of at least 7 percent. During 1987 a 25 percent rise in real income per worker and a 1.5 percent rise in employment meant that household incomes were growing at a rate

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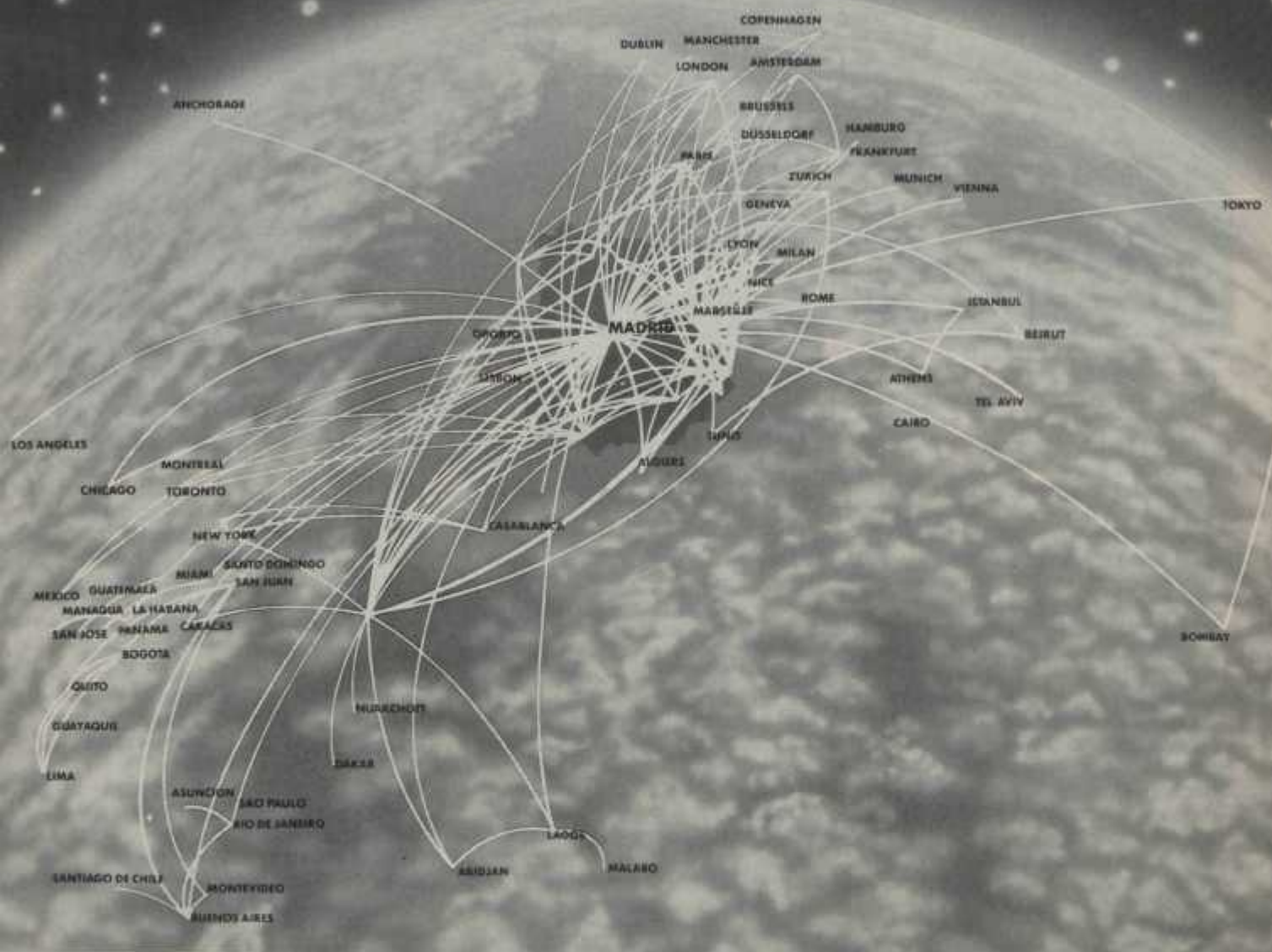
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The auto sector has moved into high gear, turning Spain into the fourth largest vehicle producer in Europe and the sixth in the world.

of some 4 percentage points above the official inflation index. From January to June, credit to the private sector, which to a great degree supported consumer spending, rose at a rate of 13 percent.

Investment boomed in 1985 and in 1986, and the curve was still climbing in 1987 at a remarkable clip. Order books in the investment industry improved 14 points in the 12 months ending February, 1987, and imports of capital goods between January and May rose 56 percent in real terms over the same five-month period the previous year.

Luis Carlos Croissier, the minister of industry, says Spain is "on line for a decade ahead of growth and prosperity." An energetic technocrat, the 38-year-old Croissier was appointed by Gonzalez to the industry post in 1986 after spending two years running the Instituto Nacional de Industria (INI), the agency that acts as a holding company for government interests in private companies.

According to a survey by Croissier's ministry strategists, registrations of buses were up 32 percent in the first quarter of 1987, those of tractors were up 44 percent and those of trucks were up 56 percent. Such statistics suggest to Croissier, as they do to any observer of Spain's economic patterns, that Spain is "a country on the move."

The survey concluded that the chief inducement for investments was still to improve quality and to lower production costs. But the survey also highlighted that much investment was also prompted by plans for new products and for increasing production capacity.

Checking out consumption and investment leads to at least two conclusions. The first is that Spain is currently a buyer's market. The second is that Spain is achieving considerable industrial and trading muscle.

With a population of more than 38 million, which is demographically young, sophisticated, prosperous and consumer-conscious, Spain constitutes a far-from-negligible market. Meanwhile the skills and the labor costs of the Spanish worker and the streamlining of Spain's productive sectors turn the country into a clearly attractive business proposition.

"Spain is going to have 10 years of prosperity. There is going to be spectacular growth, a boom," says Narcis Andreu, chairman of Iberia, the national airline. Poised to undertake a far-reaching overhaul of its fleet, Iberia, in common with innumerable domestic enterprises, has demonstrated a strong return to profitability.



PHOTO: ROBERT FRENCH—WOODFIN CAMP

Top businessmen like Andreu and senior officials like Industry Minister Croissier are not surprised that Spanish growth has caught the imagination of business people worldwide. Spain provides what an investor is looking for:

- A strong currency, proven reserves and first-rate solvency;
- A skilled, disciplined and cost-effective labor force;
- A domestic market that is receptive to innovation and to investment and that provides a solid consumer base.

There are three further factors that complete the upbeat picture of Spain's overall business environment. The first concerns political stability, the second concerns the impact and the consequences of Spain's membership in the European Common Market, and the third concerns economic trends as Spain approaches the year 2000.

Political stability is the first item on any investor's or business person's checklist. Spain has consolidated stability to an extraordinary degree under the monarchy of King Juan Carlos and the premiership of Felipe Gonzalez.

Gonzalez won a landslide victory in 1982 at the head of his Socialist Party to become, at the time, Europe's youngest premier at the age of 40. He renewed his mandate for a second four-year term in national elections held in June, 1986, that once more gave the Socialist Party an outright majority in the Madrid Cortes, or parliament.

Gonzalez-style socialism deserves a brief comment. He himself cheerfully admits that he is "an unorthodox socialist." In practice, his administration stands for

competitiveness, for modernity and for efficiency. Gonzalez has no time for the sacred cows of socialism, such as nationalization. Indeed during his mandate there have been concerted attempts to privatize public companies.

Gonzalez celebrated his third year in office with Spain's entry into the European Community. "Isolation," he says, "has been a disaster for Spain, creating political extremism and economic backwardness. When Spain has opened windows to the world, it has always prospered."

Under the terms of European entry, Spain is dismantling over a seven-year transition period its tariff barriers with the Common Market. In 1992, the transition period will be completed, and that year the Common Market itself, with its 300 million consumers, will become a unified free-trading area.

The investment that has been flowing into Spain since midway through the 1980s reflects a consensus of business opinion from Japan to the United States that within the next decade Spain stands to become a key supplier to Europe.

The Spanish economy has consistently responded well to increased competition. When forecasting the consequences of EC membership, analysts of Spain point to the beneficial effects of previous experiences of tariff disarmament. A key example is the so-called stabilization plan of 1959, which put an end to a highly regulated and inward-looking economic system in Spain that was known as autarchy.

In 1959, import barriers were brought down on the advice of world-monetary and

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Spain's tourism sector is gigantic. The country has vast leisure facilities and tourist attractions, such as these windmills in La Mancha, that every year attract 50 million visitors.

trade experts, and the suffocating domestic economic atmosphere received the fresh air of liberalization. What followed was a dramatic and powerful growth period during the 1960s that came to be known as the Spanish Economic Miracle.

Like Iberia's Andreu and Industry Minister Croissier, Claudio Aranzadi, the current chairman of the INI public-sector holding group, talks of the next 10 years in Spain being similar to the 1960s decade. "Even Spain's shipbuilding sector, which was a success story in the 1960s and suffered terribly in the post-1973 recession, is picking up," says Aranzadi.

Aranzadi's INI group has interests that range from electronics to agribusiness, from aluminum to aerospace, and is actively engaged in foreign partnerships. "Foreign technology is essential in areas such as the high-velocity train that we are developing," he says.

Plans for the high-velocity train are representative of the overhaul that Spain is undergoing as it approaches the year 2000 and form part of Gonzalez' own pledge that in the coming years "nobody is going to recognize the country." A key date in Spain's projection into the future is the year 1992.

As well as signifying the end of Spain's transition period into the European Community and the onset of the European single market, 1992 sets the stage for two key events in Spain—the summer Olympic Games in Barcelona and the staging of a six-month-long Universal Exhibition in Seville that will commemorate the 500th anniversary of Christopher Columbus' voyage to the New World.

The scheduling of the two events has created a singular sense of excitement and purpose in Spain. In 1992, the spotlight of the world will be on the country, and Spain intends to take every advantage of the circumstance. Parallels are made between Spain's dual events in 1992 and the Tokyo Olympics of 1964 and the subsequent Osaka World Fair which served to awaken the world to the reality of modern-day Japan.

The high-velocity train, together with a new railroad network, will, for example, cut down traveling time between Madrid and Seville to three hours in time for opening of the Universal Exhibition. The date is acting as a talisman that ensures major infrastructure investment in transport and also in telecommunications. Officials and the business community are all too aware that Spain will be on display, a shop window to the world.

By that date the economic trends of Spain in the year 2000 should be clear. A



PHOTO: ROBERT FREEMAN—THE STOCK MARKET

key concept in this respect is the characterization of Spain as the Sun Belt of Europe. Spain, thanks to a number of fortunate circumstances, is cast in the role of the fastest growing area and most potential-packed society in the Old Continent.

At one level the Sun Belt concept has to do with the arrival in Spain of advanced technology. The \$200 million AT&T semiconductor plant near Madrid has acted as a magnet for further U.S., Japanese and European high-tech investment. At another it has to do with the introduction of California farming techniques such as drip irrigation and the use of plastic, which have created whole new agricultural possibilities in previously arid southern areas like Almeria and Huelva. And, at a third level, the concept has to do with Spain's growth as a leisure and retirement area, a kind of Florida of Europe.

Spain's tourism sector is gigantic. The country has a vast leisure infrastructure of accommodations and facilities that every year attracts 50 million visitors, of whom close to 30 million are tourists who will spend upwards of a week's vacation in Spain. The statistics are staggering. Benidorm, a resort on the Mediterranean that is highly favored by Britons, has more hotel-bed accommodations than the whole of Greece.

Ignacio Vasallo, the energetic director of Spain's tourist board, says that the key trend is not more vacation visitors but the growth of Spain as a retirement area for senior citizens.

"People retire to where they have spent their vacations and enjoyed their leisure. Nowadays people are retiring who have for years spent their vacations in Spain,

and retirement in Spain is a natural option." The drift southwards to the Sun Belt of Europe has accelerated with membership in the Common Market and will accelerate further as 1992 and the single European market approaches.

By definition the single market will embody the deregulated transfer of capital with the European Community. Servicing the senior-citizen Sun Belt is a natural growth area of the Spanish economy.

Catalonia: Home Of Entrepreneurship

Occupying the northeast corner of Spain, shielded by the snow-capped Pyrenees mountain range that forms the border with France and bathed by the waters of the Mediterranean, Catalonia has traditionally been the country's gateway to Europe. As Spain prospers, Catalonia prospers still more.

Old Spanish hands have always said that in Barcelona, the bustling Catalan capital, people in the streets walk faster than they do elsewhere. Certainly there is a clear sense of pace, purpose and prosperity about the 1.7-million-population seaport city.

With its gracious and harmonious mix of the old and the new, Barcelona will soon be a household name: The city has been designated to host the 1992 summer Olympics.

The opportunity to stage the 1992 summer games has generated "an extraordinary excitement," says Carlos Ferrer Salat, a prominent Catalan businessman and the president of Spain's Olympic Committee. "Thanks to the Olympics, we will be able to show the world the spectacular progress that Spain has made."

The optimism and the confidence that Spain as a whole exudes is particularly felt in Catalonia. This is not surprising, because it is home to 15 percent of the population and provides close to 20 percent of Spain's gross domestic product. Since the beginning of the decade Catalonia has largely been running its own affairs through its own regional government, the Generalitat.

Catalonia is famous for the industrious nature of its nearly 6 million citizens.

Jordi Pujol, who as president of the Generalitat is Catalonia's chief political executive, sets great store by the people. "The strength of Catalonia," he says, "is that people do things without anyone telling them to do them. We may be lacking in other areas but not in people. We have a

American Enterprises in Catalonia

Catalonia, a bridge to the European market. A number of American companies such as Hewlett Packard, BBDO Int'l Inc., American Cyanamid Co., Bechtel Corp., CK Technologies, Foster Wheeler Int'l Co., etc. have established themselves in Catalonia, along with enterprises such as Lotus, to be set up very soon. These companies think that now is the appropriate time to invest in a region, whose capital is Barcelona, which is becoming a Mediterranean macro-region and extends the full arch of Piedmont, Lombardy and Veneto. Catalonia represents 30 per cent of Spanish GIP (Gross Industrial Product), showing its industrial power.

Through the C.I.D.E.M. (Center for Information and Industrial Development) the *Generalitat* of Catalonia gives the small and medium enterprises help to promote themselves abroad and facilitates foreign investment in Catalonia. C.I.D.E.M. also helps them to establish commercial contacts with American companies, to buy technology, and to work together to enter third markets.

Among C.I.D.E.M.'s main functions is advice on a wide area of legal subjects, information on sellers and buyers, information on labour market conditions, location and selection of industrial sites according to the necessities of the company, and the taking of all the legal steps necessary to establish companies in Catalonia. It also helps in contacting American companies already set up in Catalonia.

Among the incentives to set up new activities the help given from the catalan Z.U.R. (Priority Area for Industrial Redevelopment) should be mentioned. This includes grants covering up to a 30 per cent of the total inversion, preference in obtaining State credits, tax exemptions, such as allowance of up to 99 per cent on customs duties imposed on the import of capital goods and tools not made in Spain and to be installed for the first time, reductions of up to 99 per cent on any other kind of local Government excise tax or levy which affect the establishment of industrial activities, and also tax exemptions which have an average duration of 5 years extending to 10 years. As a reference, it should be observed that up to March 1987 Z.U.R. has approved 131 projects with a total inversion amounting to 52,128 million pesetas. Moreover, C.I.D.E.M. gives information about grants in other areas that the Industry and Energy Department intends to promote.

In this context it should be mentioned again the Vallés technological area, which is situated very near Barcelona and well communicated because of the motorway network and proximity to Barcelona's airport and port. In this area there are two universities, a number of research centres and several large companies such as Olivetti, Sharp, Hewlett-Packard, Asea, etc. are developing. There is also a General Research Laboratory of *Generalitat* de Catalunya, the National Centre of Microelectronics, and the Vallés Technological industrial estate for high technology enterprises.

C.I.D.E.M. has also opened several branch offices in the USA (Miami and New York) where further information can be obtained.

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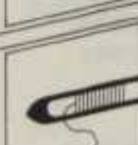
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surplus of professional skills." A prosperous, integrated society of doers and achievers, Catalonia is also, under the leadership of Pujol, politically stable and welcoming to the outsider.

Britain's ICI, Japan's Nissan, West Germany's Volkswagen and Hewlett Packard of the United States are just a few of the international corporations that have a presence in Catalonia.

Foreign investors are attracted by what local officials and businessmen like to call Catalonia's industrial "texture." In the 19th century Barcelona already was the center of a thriving cotton-weaving and textile industry.

Joaquín Molins, the Minister of Commerce in Pujol's regional government, talks of Catalonia as being a "precursor of industrialization." With obvious pride he says his country always keeps pace with the latest available technology.

Textiles remain strong but they have given place to an important chemical sector originally created to provide the necessary dyes for the cotton industry. Autos and engineering have long been estab-

lished and high tech is the latest addition.

The key element of the area's industrial texture is its myriad of small workshops and industries. The chemical industry, for example, will find 90 percent of its required suppliers within a 40-mile radius of Barcelona.

Together with its industriousness, Catalonia has an edge in its labor costs. The cost of skilled metal work in Barcelona is estimated to be 20 percent lower than in Düsseldorf. What most officials and businessmen stress, however, is not so much the lower labor costs as the skills of a labor force that has had a long acquaintance with industry.

Part of Catalonia's industrial texture is undoubtedly the existence of excellent business schools in Barcelona and the high level of language skills among Catalans.

Finally, an integral part of the industrial texture is Catalonia's communications and accessibility. Barcelona is directly linked to Europe's highway system. By land and rail Catalonia is the chief entry point from Spain into Europe. By sea it is ideally

placed to act as the focal point for business in the rich and prosperous western end of the Mediterranean. Barcelona is the biggest city and the most important financial center in an arc that stretches all along the Mediterranean's shore from Spain to France and across to Italy.

"The Japanese have a good fix on our location, our skills and our potential," says Macia Alavedra, the Generalitat's industry and energy minister. "Catalonia has the most important concentration of Japanese investment outside Japan."

The present-day business pulse of Catalonia is something that Enric Cross, the chief executive of Barcelona's trade fair and exhibition complex, knows a lot about. With 44 fairs scheduled for 1987, Cross says that he may soon have a problem with overbooking.

The Barcelona Fair is the biggest and most important in the Mediterranean. "It is the most cost-effective exhibit and has the most impact for a U.S. business that wants to penetrate the European Community," says the fair's marketing and international-relations chief executive Josep Aribau. ■

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- EXPOMOVIL-88
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- Second Hand Vehicle Market 3rd - 11th December

Building Industry

- REHABITEC-88
Reconditioning and Equipment Exhibition 2nd - 8th May

Culture

- LIBER-88
International Book Fair 28th September 2nd October

Sport and Fitness

- SPORT-88
Sports Exhibitions 22nd - 24th March
- SPORT-88
Sports and Camping Exhibition 13th - 15th September

- EXPOSALUD-88
Showcase for Health and Physical Fitness October

Electronics

- EXPOTRONICA-88
Professional Electronic Equipment and Components Show 11th - 15th April

Computers

- INFORMAT-88
Computer and Data Processing Show 11th - 16th April

Jewellery

- BARNAJOYA-88
Jewellery, Clock, Watch and Machinery Fair 12th - 16th October

Fashion

- PIELESPAÑA-88
Exhibition of Fashion in Suede, Nappa and Double Face 15th - 18th January
- GAUDI Hombre
Ready-Made Menswear Autumn/Winter 88/89 1st - 3rd February
- BCN Hombre
Ready-Made Menswear Autumn/Winter 88/89 1st - 3rd February
- GAUDI Mujer
Ready-Made Ladies Wear Autumn/Winter 88/89 19th - 21st February
- 15th Fabrics Display
Spring/Summer 89 International 23th - 26th March
- MODHOGAR 88
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Ready-Made Menswear Spring/Summer 89 29th - 31st August
- BCN Hombre
Ready-Made Menswear Spring/Summer 89 29th - 31st August

- GAUDI Mujer
Ready-Made Ladies Wear Spring/Summer 89 24th - 26th September

- 16th Fabrics Display
Autumn/Winter 89/90 International 19th - 22nd October

Nautical

- 26th International Boat Show and 12th Caravanning Sector 30th January 7th February

Image and Sound

- SONIMAG-88
International Image, Sound and Electronics Show 19th - 25th September

Leisure

- FER-88
Recreation Fair of Spain 24th 26th November
- 26th Children and Youth Festival 26th December 5th January 89

Tourism

- RODATUR-88
International Tourism Fair 13th - 17th April

Aeronautics

- COSMO-88
International Aerospace and Defence Exhibition 12th - 17th April

Other Sectors

- 12th Antiquities Exhibition of Barcelona 5th - 13th March
- 56th International Trade Fair 30th May 5th June
- CREDEM
Exhibition for the Creation and Development of Enterprises 30th May 5th June
- EXPOHOGAR-88
Gift Fair 16th - 21st September
- EXPOMINER-88
Market Exhibition of Minerals and Fossils November



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THE INI GROUP: INDUSTRIAL LEADERSHIP

The INI Group is the most important Spanish Business group. With a total turnover of 1.500 million pesetas and 170,000 employees, it is one of the most important European industrial groups and one of 60 world-wide. It is an integrated industrial group with the capacity to be present in the international oligopolistic market.

The activity of the INI Group unfolds in the basic and strategic economic sectors as well as the high technology and industrial services sectors. It also carries out a dynamic activity in industrial promotion.

A general enumeration of the sectors of activity of the INI Group follows: Energy, mining, defense, capital goods, shipyards, aluminum, automobiles, electronics, fertilizers, food, air transportation, maritime cargo transportation, cellulose fiber, industrial craftwork, industrial promotion and financial and commercial services.

Some indicators of the significance of the INI Group in these sectors, compared to the national economy, can be seen in Table 1.

TABLE 1

MAIN PRODUCTION INDICATORS OF THE INI GROUP

	Units	1986	Percentage INI Group Over National Total
Coal	Thous. tons	19,288	51
Electricity		41,500	32
Steel	Thous. tons	3,933	55
Electrolytic Aluminum	Thous. tons	555	100
Ships Delivered	Thous. CGT	120	50
Industrial Vehicles	Thous. units	12	21
Simple Nitrogen Fertilizer	Thous. tons	522	40
Cellulose Fiber	Thous. tons	521	57
Potash	Thous. tons	185	26
Passengers Transported	Millions	18	40

SOURCE: INI Group

The public ownership of the INI Group obliges it to contribute to an increase in efficiency in those sectors in which it is present. And in order to attain

its objectives of technological thrust the Group cannot deprive itself of the collaboration of the national private sector nor of the collaboration of foreign partners.

As such, the INI Group has participated and continues to participate in joint ventures to develop new products with national and foreign firms. Some examples the new Pegaso truck "Troner" whose cabin was developed jointly between ENASA (INI Group) and DAF; the collaboration in international programs by Group firms (CASA, INISEL, etc.); or the joint exploitation of certain services, as is the case of the recent agreements of IBERIA (INI Group) with other firms of the air sector to develop an automated ticket reservation system. This line of activity is turning out to be profitable for the INI Group as well as for the firms that have decided to become partners of the solid industrial group.

Another significant element is the confidence of the market in the INI Group as exemplified by the acceptance of minority packages of stocks of some of its companies offered by the Group. This underscores the transparency and efficiency of the management of the companies of the INI Group.

Table 2 shows the significance of the INI Group in the national economy, and Table 3 that significant penetration of international markets. This presence of the INI Group in international markets reflects, on the one hand, the degree of integration with those more industrialized countries, and on the other, the competitive capacity and, more specifically, the technological development of the companies of the Group.

In this respect, the significant collaboration of the INI Group with great international technological projects such as EUREKA, ESPRIT, BAITE, EFA, NFR-90, AIRBUS, E.S.A., etc., are worth noting.

An example of the technological development of the INI Group can be found in the technological coverage index and in the application ratio of R & D over total sales, both significantly higher than the national average.

TABLE 2

PERCENTUAL PARTICIPATION OF THE INI GROUP IN THE NATIONAL ECONOMY—1987

PIBc.f.	2.48
Industrial PIB	7.3
Gross Formation Finance Capital	3.7
Exports	6.9
Imports	4.5
Employment	1.6
Industrial Employment	6.46

SOURCE: INI Group, Banco de España and Instituto Nacional de Estadística.

TABLE 3

GEOGRAPHICAL DISTRIBUTION OF INI GROUP EXPORTS IN 1986

O.E.C.D.	63%
C.E.E.	43%
U.S.A.	11%
JAPAN	2%
Latín America	11%
Africa	8%
Asia	10%
Eastern Europe	8%
U.S.S.R.	5%

SOURCE: Dirección General de Aduanas.

Finally, the significance of the public sector in Spain can be illustrative of its presence in the Spanish economy and its comparison with the European milieu.

The public business sector in Spain chiefly in the hands of the State (the autonomous communities and local entities absorb only 9% of the number of employees and 4% of sales). Within the area of State business, 94.53% of employment and 79.46% of sales correspond to non-financial business activity.

The non-financial State public sector has in Spain a relatively less significant importance than in the context of the European Economic Community, as reflected in Table 4.

TABLE 4

PARTICIPATION PERCENTAGES OF THE NON-FINANCIAL PUBLIC BUSINESS SECTOR IN THE ECONOMIC MACROMAGNITUDES—1985

	EEC Average	Spain
Gross Added Value	13.4	8.7
Gross Formation		
Fixed Capital	21. —	16. —
Employment	11.5	7.8

SOURCE: Centro Europeo de la Empresa Pública (CEEP), Brussels.

The INI Group represents 50% of employment and 42% of net sales of the State public sector in Spain.⁽¹⁾

(1) Official figures from 1985 (Intervención General de la Administración del Estado).

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Sleep On It

Growing numbers of business people are solving problems in a unique way: They're sleeping on them.

By Mark Nelson

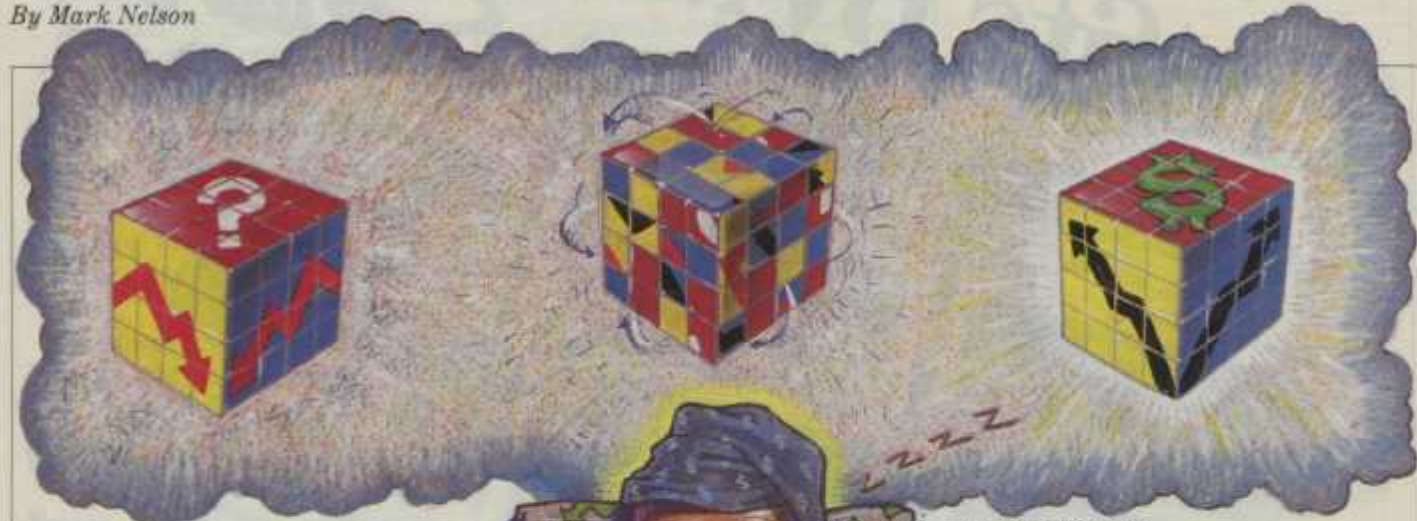


ILLUSTRATION: GREG FITZHUGH

The CEO of a struggling company in San Jose, Calif., was never accused of being a head-in-the-clouds dreamer, but he recently discovered that his dreams hold answers to down-to-earth problems at work.

The executive, who experienced a high turnover on his board of directors, had a recurring dream: He drove a speeding car without brakes toward an anonymous group of pedestrians. At first, he didn't realize there might be a connection between the dream and what was happening in the boardroom.

After counseling with a dream therapist, though, the CEO realized the pedestrians in his dream represented the departing board members. He concluded that the brakeless car was a metaphor for his own out-of-control management style that was driving the board members away.

"Dreams are a natural problem-solving function of the mind," says Dr. Gayle Delaney, a psychologist, who, along with Dr. Loma Flowers, a psychiatrist, has begun a dream-consultation center in San Francisco.

"If you can learn the language of your dreams," Delaney says, "you'll find that they're not something that's terribly esoteric—they're a form of your own thinking. We're not talking about some psychic, superstitious or Freudian thing here. We're talking about practical, diagnostic approaches."

Mark Nelson is a San Francisco freelance writer.



By interpreting his dream, the CEO knew immediately what he had to do: become less egomaniacal, tone down his management style and listen more to other opinions. After that, boardroom attrition became a thing of the past.

In addition to pinpointing problems, the dream therapists say you can "ask" your dreams to solve specific problems—a process the dream therapists call "incubation."

For instance, Robin Arnold, the owner of Arnold & Company Public Relations in San Francisco, says that she uses her dreams as an extra resource for solving work-related or even personal quandaries.

Recently, she needed an overnight marketing gimmick to persuade distributors to renew their contracts with one of her clients. That night, she says, she repeated the problem to herself before nodding off—essentially asking her dreaming mind to come up with a solution. By morning, her dream had done the work for her.

She dreamt about Las Vegas card dealers jockeying for position on a gi-

ant gold blimp shaped like the distinctively styled Cross brand pen. From this imaginative image, she says, she knew what to do before even stepping out of the shower that morning.

When Arnold got to her desk, she dashed off a note to the nearly 200 distributors, thanking them for their past loyalty. Included in each envelope was the new contract and a Cross pen to sign it with. The tactic worked.

"I think if anyone were to take the time, especially any business person, and experiment with this—whether it's to organize a speech, hire, fire, buy, sell, expand or whatever—they could get the same results I get," Arnold adds.

Although many business people view dream therapy with acute skepticism, it has become a growing field since Delaney wrote a book in 1981, entitled, *Living Your Dreams*. Published by Harper & Row, the book recently became required reading for a "Creativity in Business" course at Stanford University's Graduate School of Business.

"When people read about dreams, they often think there's some weird psychic or superstitious phenomenon at play," says Delaney. "But dreams, in effect, merely help us make the metaphoric bridge between life's experiences. . . . You just have to learn how to read them."

"Old school" psychoanalysts who follow Freudian principles are critical of the dream-counseling approach, which promises a quick understanding and un-

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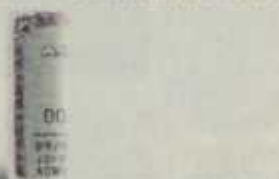
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Sleep On It

tangling of everyday problems through dreams. This school believes that dreams, for the most part, reflect repressed sexual wishes rooted in childhood experience. They further contend that dreams can reveal parts of the past, but not the present or future.

However, Dr. Robert Van de Castle, director of clinical-psychology training at the University of Virginia Medical School, says that Freudian psychoanalysts are a diminishing breed whose ideas are considered pretty narrow. "Sure, sexual wishes are an important part of dreams, but we know now that dreams also tell us a lot of things about ourselves, such as anxieties, conflicts, guilt, apprehensions, creativity, power, competition."

Dreams are becoming a growing "natural resource" for people in the workplace to tap into, says de Castle. He adds that many therapists associated with company employee-assistance programs now help personnel interpret dreams as part of their counseling.

"Because it's free and so easy, people often don't believe it, but it's wholeheartedly true that you might find some helpful things about work in your dreams—choosing a job, whether to switch jobs, how to get along better with the boss, self-enlightenment and so on," says de Castle.

Some of the world's greatest ideas and inventions have come from dreams. For instance, Auguste Kekule wrote in 1870 that he visualized the structure of benzene in a dream, and Dmitri Mendeleev, a Russian chemist, reported dreaming the order of the periodic table almost in its entirety. Robert Louis Stevenson said his dreams were the creative source for many of his novels, especially *Dr. Jekyll and Mr. Hyde*.

Learning to interpret the meaning of dreams doesn't require a doctorate in dream therapy, but it does take a little persistence and patience. First of all, no dream can be diagnosed unless you can remember it, says Dr. Flowers, Delaney's associate at the dream-consultation center.

Consequently, the first step is to keep a pen, paper and a light by the bed. Upon waking, she recommends, write down everything that comes to mind, "even if it's some words to a song or something bizarre about artichokes and giraffes."

Delaney says to keep your mind open during those first waking moments in an effort to remember the dream, even



if you're showering or brushing your teeth. If you haven't recalled it by breakfast, she adds, it's probably lost.

After recalling the dream, determine what associations the people, settings and events in a dream hold. One way to help uncover hidden meanings is to imagine describing an object or action in a dream to someone from another planet—that is, someone with no preconceptions. These descriptions can be very subjective, say the dream therapists.

The final step is to link dreams to everyday life. A client of Delaney & Flowers, a manager at a medium-sized electronics company in the San Francisco Bay area, had a dream that reflected his anxieties about public speaking. He kept dreaming that when he stood at the podium, everyone in the audience looked like the headmaster at his grammar school who had grilled him *ad nauseam*.

"He realized he was unable to see his real audience," says Delaney. "By watching his overreaction to his childhood response, he saw that he didn't have to really be afraid." In fact, after discovering this deep-seated anxiety, the manager had a good dream—that he gave a very competent presentation that received respectable applause. Later on, this milestone happened in real life.

Asking dreams, or "incubating" them, to solve everyday problems or come up with creative solutions also is a relatively easy process. Once the techniques are mastered, counseling becomes unnecessary, and it can even be-

come difficult to turn off your dreams, says Delaney.

To incubate a dream, simply write a clear, one-sentence request before going to bed, then block out all other thoughts while repeating that sentence until falling asleep. "It's better than counting sheep for one thing," quips Delaney, "and you will almost always dream on the subject you have set for yourself before going to sleep."

Delaney certainly practices what she preaches. For instance, not long ago, she was approached by a radio station to do a call-in talk show about dreams. Unsure what fee she should charge, Delaney consulted a friend in the radio business, who said that a salary for such a program would start at about \$15,000 and peak at about \$40,000 for a year.

"I was willing to take the job free because it was such a good opportunity," Delaney recalls, "but I didn't know how to play hardball in contract negotiations, and I didn't want them to take advantage of me."

The night prior to negotiations, she incubated a dream. In it, Delaney was in a very far-away land and realized that if she were not willing to kill anyone she met in the streets that the strangers would run over her—essentially kill her instead. "It was an astounding experience," Delaney recalls. "I woke up, realizing that I had to go for the kill."

During the discussions, the radio executives would casually mention money every now and then, in between more general discussions. They initially suggested a salary of \$15,000. When no response came from Delaney, they quickly steered the conversation over to talk-show formats. "They'd talk about something else, and then mention \$17,000, then \$21,000, then go back to something else. I still had not responded to one word about salary until they had gotten to \$37,000," Delaney recalls with mischievous delight.

"I continued to ask general things, then more specific things like how wages are paid and whether they worried about small expense-account items. Then, I went for the kill. I said, 'Since you don't quibble about little things, let's just make it an even \$40,000.' I couldn't believe it, but they agreed."

"I had never done anything like this before, but I did it with such aplomb. The dream gave me an attitude, a mode of force and a guiding light in a very anxiety-filled event." ■

Making It

Greeting cards that say "Congratulations!" are in order for the owners of L'Image Graphics and Lettuce Leaf.

Their Season To Be Jolly

Taylor Barnes remembers the day about seven years ago when she and her friend Wayne Wilson, a teacher, went shopping in Los Angeles for a greeting card for one of Wilson's relatives. Wilson, who is black, "started going through the black cards," Barnes recalls, "and they all had these outdated photographs of people in big Afros. Being white, I had never thought about there being a lack of representation. I said, 'Is this it? With all the gorgeous greeting cards on the market, is this all there is on this rack?'"

The answer was yes. Something clicked for Barnes, who was then a free-lance designer. She had never before thought about getting into greeting cards, but "I know I can do better than this," she told Wilson.

She has; so has Wilson. Today, Wilson, 33, and Barnes, 32, own L'Image Graphics, a 4-year-old Culver City, Calif., firm that offers five lines of about 140 minority-oriented greeting cards. Wilson is the firm's president, Barnes its art director.

L'Image's cards are far removed from the clichéd cards that once aroused Barnes' dismay. The L'Image cards emphasize elegance and fantasy—night skies strewn with stars, flowing hair dusted with jewels. It seems almost incidental that many of the handsome figures on the cards have dark skins. "We wanted to fill a need in the marketplace," Wilson says, "but we did not want to alienate other buyers."

Wilson and Barnes say that sales in the fiscal year that ended September 30 were close to \$300,000, more than double sales in 1986. L'Image turned a profit both years.

Christmas-card orders, which doubled in 1986, have quadrupled this year, and next year L'Image will offer for the first time cards for Valentine's Day, Easter, Mother's Day and Father's Day. Opportunities are popping up to put L'Image's card designs on posters and stationery.

"Sometimes we get really excited," Barnes says, "and think maybe we



Taylor Barnes and Wayne Wilson: Their L'Image Graphics in Culver City, Calif., produces minority-oriented greeting cards with universal appeal.

should go for big money. And we have to kind of rein ourselves in."

Caution—and persistence—have been the pair's hallmarks since they hit on their idea. For two years, before going into business themselves, they scouted card shops, making sure that no existing lines duplicated what they wanted to do. Then they tested the market in 1982, by designing seven Christmas cards, printing fewer than 1,000 of

each, and selling them in a few local stores. With all the signs positive, they raised around \$100,000 in start-up money (some of it from actor Sidney Poitier and Motown Records' Berry Gordy) and began slowly breaking into retail stores across the country.

L'Image's strong Christmas sales last year impressed some retailers who had been reluctant to carry the cards, and now L'Image products adorn racks in L. Magnin, Macy's and other upscale stores.

Thanks to such breakthroughs, it seems clear what the future holds for L'Image: many happy returns.

—Michael Barrier

Making It

PEOPLE

Christine and William Saigh were sure—although no one else was—that people would go for salads when they opened their first Lettuce Leaf Restaurant outside St. Louis in 1976.

Tossing Up A Winner

In the 1950s, William Saigh lived out a fantasy.

Clad in a St. Louis Cardinals baseball uniform, he tried his hand at batting practice at spring training in St. Petersburg, Fla. He got wood on a few, but soon wore himself out swinging futilely at pitched balls. As he trudged away from the plate, the old-timers who perch daily in the stands were shaking their heads. Their unanimous opinion: This rookie wasn't going to make it in baseball.

Actually, Bill Saigh wasn't trying to make the roster. He already had a job with the Cardinals' organization—operating the concessions at the ballpark.

"I was between my M.A. in business and doctorate in marketing," Saigh recalls. He would launch a career as a college professor once his studies were concluded.

Meanwhile, he had several hundred people working for him at the ballpark. Peanuts, popcorn and hot dogs, although not the ingredients of a gourmet operation, gave Saigh six invaluable years of food-service experience and ultimately the confidence to go for another dream at the age of 56.

Today Saigh and his wife, Christine, own five very successful Lettuce Leaf restaurants, four in St. Louis suburbs and one in Kansas City, Mo.

Starting in 1976 with \$25,000 of their own and a Small Business Administration loan, they opened an unusual restaurant that served primarily salads. The restaurant reached the break-even point in 45 days.

This was before the salad-bar craze raced across the nation. It was then such a revolutionary idea that Bill Saigh, despite the fact that he was a respected associate professor of marketing at St. Louis University, got a cold reception from the bankers he approached for \$50,000 in financing.

"When I said I wanted to open a restaurant, they laughed; when I told them it would serve primarily salads, they rolled on the floor. I went to 17 banks and was turned down by all of them. Finally one young loan officer said to me: 'Professor, don't you know the Small Business Administration makes loans? Why don't you try them?'"

Saigh did, got the loan and proceeded to do what he had been urging his stu-



PHOTO: SCOTT DINE—PICTURE GROUP



PHOTO: LETTUCE LEAF

dents to do during his 21 years of teaching marketing—go into business.

"I had been telling them to go out and try—if they saw an opening and thought they could do a better job than the other guy, to jump in and do it."

For years the Saighs had been dissatisfied with the salads they got in restaurants. They much preferred the ones they made from the produce grown in their 5-by-10-foot garden. When they opened their own establishment, they insisted on only the freshest ingredients available.

"I developed a complete marketing plan," says Saigh. "The whole concept was based on foot traffic in a neighborhood where affluent intellectuals who were concerned about nutrition lived or worked."

So the first restaurant was opened in Clayton, a St. Louis suburb, where

some 50,000 people work. The Saighs knew that "not many people are going to drive a long way for a salad," he says.

"We made salads, photographed them and ate them for three months before we settled on our menus," says Christine Saigh. On opening day they had 22 salads on the menu. After a few days they dropped six poor sellers. On the menu they also included sandwiches and soup.

"The salads are entrées," says Bill Saigh. "Served at the table. We offer both hot and cold salads, salads that you don't get at the typical salad bar. That do-it-yourself salad is what we call the American chef salad. However, our salads can be customized, too."

When they came in the door at the first restaurant, customers could look at salads resting on a bed of crushed ice to help make their ordering decisions. Now they view life-size color transparencies instead.

"We had to make fresh salads each day [for the displays]," Bill Saigh says. "This was an added expense of \$12,000 annually for each restaurant."

Missouri's Small Business Person of the Year in 1983, Bill Saigh and his wife have been recognized a number of times for their work with the developmentally disabled and hearing impaired.

Today 25 of their some 300 employees are handicapped.

The five restaurants had gross sales of more than \$3.5 million in 1986. Bill Saigh believes that the concept will work in any American city. His corporation has been approached by suitors, but a suitable marriage has yet to be arranged.

In the meantime, he has accomplished the American dream and proven to his former students that opportunity in this country is not dead, as many of them believed.

And he learned, too: "If I ran a business school, I wouldn't hire someone for the faculty who had never met a payroll," says Saigh.

Knowing her husband's strong patriotic feelings and belief in the system that nurtures entrepreneurship, Christine Saigh bought him a gift for his 65th birthday at a charity auction that let him live out still another fantasy.

During that year's Fourth of July holiday, music-lover Bill Saigh was guest conductor of the St. Louis Symphony for a thunderous rendition of "Stars and Stripes Forever."

—Grover Heiman

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That's what Dal La Magna of Port Washington, N.Y., calls himself. La Magna, 40, has developed a line of designer tweezers labeled "La Pluck."

An expert at designing high-brow tweezers, nail clippers, files and other body-grooming tools, he distributes them to over 2,000 retail and beauty shops.

Tweezerman products are manufactured in three factories in Switzerland and Italy. The surgically precise stainless-steel tweezers cost a hair-raising \$20, but La Magna says they are guaranteed for life.

The plucky entrepreneur, who has a master's degree in business administration from Harvard, is known as much for his zany marketing tactics as for his design and production skills. It's not unusual to see him attracting attention by carrying a six-foot pair of balsa wood tweezers to his office. His 10-employee enterprise grossed \$1.2 million last year.

—Leslie Glatstein

Hot Vibrations

Devils Lake, N.D., made him do it. Businessman Duane Bye, tired of the area's cold winters, manufactures the world's first combination sauna and vibrating bed.

The 95-inch-long device allows users to rock and roll to the built-in stereo while sweating out excess body fluids. Except for the user's head, the whole body is encased in the Vibrosaun Body Conditioner. Temperatures of up to 170 degrees can be programmed by the user for up to 30 minutes.

Vibrosaun was originally an Australian idea, and Bye purchased rights to manufacture and market the product. He has added pastel colors and digital readouts and plans to sell it worldwide.

Bye is betting that appearance-conscious people who hate exercise will be clamoring to climb into his machines and that local health clubs and resorts will buy them. He expects to sell 3,500 units in 1988 and up to 12,000 by 1990—if his vibrations are right.

—Michael Whittaker



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COMMENTARY

Congressional Alert

Here, in brief, are important legislative issues along with suggestions from *Nation's Business* on what you should tell members of Congress about them. Addresses: U.S. Senate, Washington, D.C. 20510 and U.S. House of Representatives, Washington, D.C. 20515.

ISSUE

BUSINESS IMPACT

BUSINESS MESSAGE

Balanced-Budget Amendment

Business—and taxpayers in general—would benefit from enactment of a constitutional amendment that would require a balanced federal budget. Continuously high federal deficits, despite statutory attempts to reduce them, have intensified the need for such an amendment.

Members of the House and Senate: Support a balanced-budget constitutional amendment that would place limits on federal spending. Statutory measures have had limited success in reducing federal deficits. Such an amendment is necessary to assure fiscal responsibility.

Taxpayers' Bill of Rights

The Taxpayers' Bill of Rights would establish an inexpensive and quick means to resolving disputes with the Internal Revenue Service. The many smaller businesses that are unable to afford expensive legal and accounting advice especially would benefit from this bill.

Members of the House and Senate: Support the Taxpayers' Bill of Rights, which offers fundamental protections to all American taxpayers by redressing an imbalance between the authority of the IRS and the rights of taxpayers. These reforms are long overdue.

Minimum Wage

Increasing the minimum wage from \$3.35 an hour to \$4.65 an hour over the next three years and indexing subsequent increases to 50 percent of the average nonsupervisory manufacturing wage would have a major impact on inflation. The "ripple effect" of the minimum-wage increase would force up wages for those workers now above the minimum wage.

Members of the House and Senate: Reject legislation that would increase the cost of business without increasing productivity. Proposals being considered in Congress would increase the minimum wage significantly and consequently push up other wages. Such inflationary measures harm all Americans—business owners and consumers alike.

Occupational-Hazard Notification

Businesses handling any hazardous substance would face increased health, safety, insurance and litigation costs if a law is enacted to create a massive, duplicative bureaucracy to administer a program to identify occupational hazards and notify and counsel workers regarding their medical conditions and legal rights. An expensive federal program already addresses workplace risks.

Members of the Senate: Oppose occupational-hazard-notification legislation currently awaiting Senate-floor action. Do not add to the excessive regulation, litigation and employer expenses that result from current federal requirements. Do not create another unneeded bureaucracy. Oppose such moves, which would be steps toward federally mandated health benefits and federalized workers' compensation.

Parental Leave

Congress is considering bills that would require employers to provide unpaid, job-protected leave for employees with newly born or sick children or seriously ill dependent parents and unpaid, job-protected leave for seriously ill employees. One bill also would establish commissions to study paid leave.

Members of the House and Senate: Oppose any legislation that would require parental/elder-care and disability leave. Mandated leave would prohibit employers from offering flexible benefit packages to meet employee needs. Also, such legislation would violate a manager's right to manage.

Health-Care Coverage

Legislation that would require employers to provide health insurance for employees and employees to accept such coverage would increase labor costs and reduce job creation. At this time of intense international competition, increased labor costs would hurt employers and employees alike.

Members of the House and Senate: Oppose legislation requiring employers to provide health-care coverage. Such a requirement would increase labor costs and impede job creation. The voluntary, private-sector employee-benefits system allows employees to choose the benefits they prefer and employers to provide the benefits they can afford.

Where I Stand

Results of this monthly poll are forwarded to top government officials in the White House and Congress.

1. Increase Notification Of Disease Risks?

The House has approved federal monitoring of employees exposed to occupational hazards or at risk of contracting occupational diseases. Proponents believe this program eventually would eliminate deaths and disabilities stemming from workplace exposure to haz-

ardous substances. Business opponents argue that a requirement to notify workers of risks will be costly and burdensome and will not immunize employees against diseases. Opponents also note that notification requirements would largely duplicate provisions of the Hazard Communication Standard. Should the high-risk notification proposal be enacted?

2. Reduce Frequency Of Payroll-Tax Deposits?

Under current law, relatively small firms can be required to make frequent deposits each month of income and Social Security taxes withheld from employees' paychecks. Some in Congress are seeking to reduce the required frequency of deposits to the IRS. Support-

ers of the present system argue that the more frequently deposits are made, the more the Treasury earns in interest. Backers of less frequent deposits say the new system will radically reduce loss and misapplication of funds by both the IRS and employers. Do you favor allowing less frequent withholding deposits?

3. Restrict Licensing Of Nuclear Power Plants?

The Nuclear Regulatory Commission has the authority to grant full-power operating licenses to nuclear power plants even if utilities have not received local and state approval of their emergency evacuation plans. Sen. Daniel Patrick Moynihan (D-N.Y.) says he will

introduce legislation to supersede the NRC's authority in the cases of the Seabrook (N.H.) and Shoreham (N.Y.) plants. Opponents argue that U.S. nuclear power plants have superlative safety records. Should Congress allow state and local governments to prohibit full-power licensing of nuclear plants?

Verdicts On October Poll

Here is how readers responded to the questions in the October issue.

	Yes	No	Undecided
Should arctic gas, oil be tapped?	54%	38%	8%
Should the Constitution require a balanced federal budget?	76%	16%	8%
Should imported oil be taxed?	37%	53%	10%



Send in your vote on the inserted postpaid card. Your views on any of these questions are also welcome as letters to the Editor, Nation's Business, 1615 H Street, N.W., Washington, D.C. 20062.

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Personal Management

To Your Health

By Phyllis M. Barrier

An echocardiogram, which produces an image of the heart as it beats, can be used to diagnose mitral-valve prolapse, the most common form of heart disease.



PHOTO: DAN WOOLY—RAINBOW

Murmurs Of The Heart

Several years ago, during a hectic day at work, I noticed discomfort in my chest and a shortness of breath. The chest discomfort went away after a short time, but over the weekend at home, in a more relaxed atmosphere, the same symptoms kept recurring with some frequency. Since I have a strong family history of heart disease, I made an appointment with my doctor.

He diagnosed the problem as a mitral-valve prolapse. To confirm his diagnosis, he sent me for an echocardiogram, an examination that uses ultrasound to produce an image of the heart as it beats.

As it turns out, mitral-valve prolapse (also known as the click-murmur syndrome, Barlow's syndrome, balloon mitral valve and floppy-valve syndrome) is the most common form of heart dis-

ease. It occurs in 4 to 6 percent of the population, more frequently in women.

Dr. Bernard Slosberg, chief of internal medicine at Group Health Association in Washington, says MVP "can be diagnosed by a kind of click heard through the stethoscope, and sometimes a brief murmur, as blood slips back through the valve." Slosberg screens patients carefully before sending them for echocardiograms because the test is so sensitive that it produces many false negatives (indications of a problem when there isn't one).

I was fascinated by the echocardiogram. I could watch the valves of my heart on a small screen as the diagnosis was being made.

The mitral valve lies between the two chambers that make up the left side of the heart. Blood flows from a filling chamber, the left atrium, into a pumping chamber, the left ventricle. When the heart pumps blood out into the body, the two triangular flaps of the valve close tightly to prevent the blood from flowing backward from the ventricle into the atrium.

(As the mitral valve's flaps pull

apart, the flaps look a little like a bishop's mitre—hence the name.)

In some people, the mitral valve's flaps are so flexible that they billow a little—or prolapse—as they close, causing the "click."

My hectic day at work may have made me more aware of MVP's symptoms, but so far no study has found that MVP is related to stress. Similarly, many studies have tried to find a relationship between MVP and panic attacks, but so far none has. There seems to be little likelihood that MVP, in itself, can bring on a heart attack.

MVP can have other, less serious consequences, however. Some people with MVP may have abnormal heart rhythms; these usually require no treatment, although in some cases they may call for medication.

In addition, according to the American Heart Association, a few patients with MVP may tire easily, have chest pains or suffer shortness of breath. These symptoms rarely require medication.

Most people with MVP need no treatment of any kind, but those people who have leaky—"regurgitant"—valves may need antibiotics to prevent infection of the valve during surgery or dental treatment. Such procedures—because they involve violating body surfaces like skin and gums—can allow bacteria into the blood stream. The valves may then become infected.

(Bacteria can also enter the blood stream through accidental cuts and abrasions, of course, but no medical authorities recommend special precautions against them.)

Heart-valve infections, known as endocarditis, are serious and often life-threatening. Treatment requires getting intravenous antibiotics for up to 12 weeks and sometimes open-heart surgery. Most dentists now ask routinely if you have a heart murmur. If you do, the dentist or hygienist will ask if you have taken your oral penicillin. On one occasion, I had forgotten to take it—and had to reschedule my appointment.

I still take notice when I feel those strange sensations in my chest. But I continue with what I'm doing. And I always remember to take oral penicillin before I have my teeth cleaned. ■

Phyllis M. Barrier, a registered dietitian, is a nutrition consultant and nutrition coordinator for a Washington-area health-maintenance organization.

Do you feel an occasional strangeness in the chest? It may not be Christmas cheer. Check your heart, and then check your tax bracket—that will change soon. If all else fails, play with your newest investment: toy soldiers.

For Your Tax File

By Gerald W. Padwe, C.P.A.

Tax Reform, Round Two

Here we go again! At the stroke of midnight, December 31, two things will happen: The lighted ball will descend on the tower in Times Square, designating a new year, and tax rates will descend for the second year in a row.

We don't often get the opportunity to play "tax-rate arbitrage"—using the differences in tax rates to make money—and the next time it happens, rates will almost certainly be going up. So, here are a few timely tips that could put a few tax dollars in your pocket to help with Christmas shopping.

Investments

The top rate for short-term capital gains this year is 38.5 percent; for next year it will be 33 percent for those filing joint returns with taxable incomes between \$73,000 and about \$170,000, and 28 percent above the latter figure.

The top long-term-gain rate for 1987 is 28 percent, and it continues at that rate (or at the 33 percent rate, if applicable) thereafter.

Taking a long-term gain in December may be better than waiting until January if your bracket next year will be 33 percent. Short-term gains, on the other hand, may be better deferred until January to avoid paying a 38.5 percent tax.

Those with short-term gains who are concerned about market drops between now and year-end should remember the technique of selling short against the box. What that means is, if you already hold, say, 100 shares of XYZ Corporation, you would sell them short today. Then, regardless of market action, you have locked in your economic gain as of the date you sell short. In January,

Do you have a working teenager at home? Helping him or her start a retirement plan could mean an investment that will reap a fine return.



PHOTO: JOHN NEUBAUER—UNIPHOTO

close both legs of the transaction. You will either make a gain on the stock you hold and lose on what you sold short, or vice versa. Either way, your net short-term gain is recognized at next year's lower rates.

Net capital losses may offset up to \$3,000 of ordinary income. If, therefore, there are losses you wish to take over the next number of weeks, there is an advantage of winding up with a net-loss position (up to \$3,000) in 1987, when the losses will reduce income taxed at 38.5 percent.

Deductions

Year-end deductions may be worth more if made in December, rather than in January, because they can provide a tax benefit up to 38.5 percent. This would include charitable contributions, prepayments of real- and personal-property taxes and the January 15 final payment of your estimated state income tax. An important point to remember is the new limitation on miscellaneous itemized deductions and unreimbursed business expenses you had as an employee. All of these items (investment services, safe-deposit boxes, tax-return-preparation fees, custodian fees, etc.) must now be lumped together, and the total is deductible only to the extent it exceeds 2 percent of adjusted gross income (AGI).

Since 1986 rates were as high as 50 percent and there was no 2 percent AGI limitation on miscellaneous deductions, you may well have accelerated some early 1987 payments into 1986. You may wish to change strategy a bit and postpone similar year-end payments until 1988. You will not get a 1987 deduction for these miscellaneous items, but by bunching such payments every other year, you maximize the amount over the 2 percent limit.

Family Planning

You can give a helpful financial advantage to a working child. Suppose your 15-year-old earned \$1,000 at a summer job. The child is hardly going to want to consider putting money into an IRA rather than spending it on clothes, records, etc.

But—if you can spare the cash—you could give \$1,000 to the child to set up an IRA, and the account will compound tax-free over that child's working life. If the child is aged 15 when the \$1,000 is put into the IRA and nobody ever puts another dime into the account, it will total \$47,000 by the time the child retires at age sixty-five (assuming 8 percent annual compound interest). A more realistic monthly compounding at 8 percent will produce a retirement fund of \$54,000—all from the one-time \$1,000 payment. **NB**



Gerald W. Padwe is national director-tax practice for Touche Ross & Co. Readers should see tax and legal advisers on specific cases.

It's Your Money

By Ray Brady

An Investment Worth A Salute

If you're sitting there looking at your portfolio, and you feel that you've been slaughtered by your stocks and beaten down by your bonds, take a break and look at another form of asset—one that seems to have rewarded some of its followers a bit better than the financial markets have been doing lately.

In fact, if you have some of these little fellows lying around the attic, dusty and forgotten, it might help you to make up at least part of your financial loss.

This type of asset—a particularly apt one with the Christmas season nearly upon us—is the toy soldier.

Those old toy soldiers that used to go for a nickel in the five-and-dime stores of our youth (or, at least, during my youth) now bring some comparatively handsome prices. And if you have a box of the English-made W. Britains, Ltd., soldiers—say, Grenadier Guards, proudly marching along in their red coats—well, you may not realize it, but some of those can bring an especially handsome price.

Case in point: A set of Britains Highlanders—the kilted "ladies from Hell," as the Germans of World War I called them—sold for the equivalent of a dollar or two in the 1930s. If they're in their original box, they now bring somewhere around \$2,000.

If you have some characters tooting horns, wearing pith helmets and white jackets, that may be the Bahamas band, put out by Britains as well. They go for around \$3,000 to \$4,000 a set, depending on just what condition the bandsmen are in (obviously, the more battered toy soldiers are, the less collectors are willing to pay for them).

If toy soldiers are fetching fairly high prices, it may be because of the people who collect them. Many are wealthy, like magazine publisher Mal-

Even new toy soldiers, like this Irish Guard by Marquardt Miniatures of Virginia, can bring collectors' prices. And old ones may be sounder investments than stocks.



PHOTO: COURTESY OF THE OUTLAW INTERNATIONAL COLLECTION

colm Forbes, who has about 100,000 toy soldiers. Both Wyeths (painters Jamie and Andrew) collect the little warriors.

Peter Blum, who runs the Soldier Shop on Manhattan's Madison Avenue, says it's not militarism that turns people into collectors. "Sometimes it's nostalgia, and sometimes it's just the appeal of the colorful uniforms," says Blum. "Also, many collectors are history buffs, and there's a lot of history tied up in those regiments."

Altogether, Blum estimates, about 100,000 collectors go through old attics, attend auctions or otherwise keep an eye out for old soldiers. Blum himself recalls being invited recently to a Manhattan apartment, to look inside an old Louis Vuitton trunk. It was filled with toy soldiers, including one box where the soldiers had real steel helmets. That was the key: They were made just before Great Britain entered World War II, when Britains went from making toy soldiers to making weapons for real soldiers. That gave the box its particular value: \$7,000.

Toy soldiers first came to public notice as a collectible item when the col-

lection of Douglas Fairbanks, Jr., was auctioned off. "The price that it brought doesn't seem so outstanding now," says Blum, "but in the late 1970s it made people sit up and whistle."

Wall Streeter Burt Ehrlich made them sit up and whistle, too. His collection consisted entirely of Britains soldiers. Experts estimate he spent about \$25,000 to \$30,000 to put it together. The selling price for his collection: an astounding \$750,000.

Collectors pay high prices for Mignots, Hoydes, Courtenays and other makes of soldier. Still, many collections revolve around W. Britains. There's a good reason for that. For many years, it was the pre-eminent firm making soldiers, and it had all those colorful regiments of the British army to model its figures on. And its soldiers were dated. The year of their manufacture was on the bottom of the figure or on the box, and collectors know immediately just when a set was made.

Some idea of what's been happening to values can be seen in places like the Soldier Shop. Consider the price of what are called "new old soldiers"—newly made soldiers, usually hand-painted, authentic in every detail and made in places as far away as New Zealand.

Want to see the 21st Lancers, Winston Churchill's old regiment, in action again? A set of three horsemen will cost you \$70. Or, watch the Black Watch charge again, just as they did at Waterloo—\$50 for six.

But the real values are in the old soldiers that may be up in your attic. As in most collections, rarity means money. If you have a box of Britains Girl Scouts—known as Girl Guides in England—you've got about \$800 to \$900 worth of lead sitting there. Most boys collect soldiers usually at an age when they aren't yet interested in girls—even in miniature—and there weren't too many sets of Girl Guides sold.

Britains also put out a set of Japanese soldiers, modeled on those who fought the Russians in 1905. That war was a long way from Great Britain, so most boys didn't care much about it, and not many of the soldiers were made.

Peter Blum has some on his desk. They're a bit battered and there are only five of them—not a complete set. But because few boys wanted them when they came out, collectors will pay \$550 just for this small band of children's cast-offs. **MB**



Ray Brady is the business correspondent for CBS News.

An Wang: Getting To The Essentials

By Karen Berney

"Markets change, tastes change, so the companies and the individuals who choose to compete in those markets must change."

An Wang sits calmly sipping Chinese tea in his sparsely decorated office. Asked what inspired him to invent a machine that could manipulate type on a display screen, the precursor of the personal computer, he speaks not of a technical vision but of the plight of office workers.

"I felt secretarial work was real drudgery," he says. "If you made typing mistakes, you would have to retype the entire document. So why not put the information on a screen where it could be easily erased and edited?" He pauses. "It was really all about trying to make office workers more productive so they would get more enjoyment out of their jobs."

In an industry known for high-profile entrepreneurs, An Wang, the 67-year-old founder, CEO and chairman of Wang Laboratories, Inc., has managed to hold on to his privacy and modesty. He is reluctant to talk about himself and his accomplishments, and when he does, it is in sentences as uncluttered as his surroundings—he likes to get right to the point.

A popular in-house joke: When the "Doctor," as his employees affectionately refer to him—he holds a Ph.D. in applied physics from Harvard—gives a major speech, don't bother to sit down, because he is not going to keep you for more than five minutes.

But don't let his reticence fool you. It masks an aggressive and decisive businessman. Lately he has had to be. Over the past few years, the \$2.8 billion, 30,000-employee, Lowell, Mass., computer giant that Wang launched with \$500 in savings in 1951 has been taking a beating. Only recently has the firm shown signs of a recovery.

In the early 1980s, after a long period of breathtaking growth—between 30 and 40 percent a year—Wang Labs' star began to fade. Quite simply, the company did not foresee the personal-computer revolution. While its competitors were offering desktop machines that could both edit text and crunch numbers, Wang was still selling word processors that were only good for creating documents.

Then, just as the firm was readying a new computer line to meet the competition, a slump hit the industry, causing



PHOTO: RICHARD HOWARD—BLACK STAR

If there is one secret to his success, An Wang says, it is that he has always shunned management fads in favor of common sense.

Wang to lose \$109 million in the fourth quarter of 1985—its first red ink in more than 10 years.

What happened? "We had become a little complacent," reveals Wang in his autobiography, *Lessons* (Addison-Wesley, 1986). Indeed Wang appears to have missed the most important lesson of his career: He failed to sense a shifting market and diversify Wang's products in time to exploit new opportunities. As he writes: "Markets change, tastes change, so the companies and the individuals who choose to compete in those markets must change."

Wang believes in risk-taking and learning from mistakes—another of his *Lessons*. He went on the offensive. He had handed over the corporate reins to a five-member executive committee including himself for the previous two years. In 1985, he took sole control again, disbanded the committee and embarked on a brutal work schedule. For months on end he boarded plane after plane in a cross-country tour to rejuvenate the sagging confidence of customers and employees. And in what must be strong medicine for a man re-

nowned for his generosity to employees—stock options, free country-club memberships and subsidies for tuition and child care are among the firm's many benefits—Wang has eliminated more than 2,600 jobs from the payroll since 1985.

The firm's seven regional centers were turned into autonomous profit-and-loss centers. Whereas the regional vice presidents had previously needed headquarters' stamp of approval on major business decisions, they now had the freedom to run their own shows. "Because we were growing so fast, we kept hiring more people and building up layers at the top that were not essential," Wang explains. The firm had become bureaucratic and slow to react.

Hard times persist at Wang Labs, but analysts believe the Doctor has put his brainchild back on track. Wang showed modest profits in the last two quarters of 1987 and reported stronger-than-expected earnings and revenue growth for its first quarter of 1988. With demand up and costs down, Wang should continue to rebound through next year, maintains George Elling, an industry analyst with Oppenheimer & Company, Inc., of New York.

In late 1986, Wang again withdrew from day-to-day management and, fol-

LESSONS OF LEADERSHIP

An Wang: Getting To The Essentials

Wang's son and successor, Fred Wang, says his goal as president is to grow the Lowell, Mass., computer maker into a \$5 billion company.

lowing a Chinese tradition, bequeathed the business to his eldest son, Frederick, Wang Labs' 37-year-old president. "He is the visionary, and I'm the implementer," says Fred Wang of the father-son team.

That vision, adds Fred Wang, springs from a sensitivity to the workers who use Wang products. "A lot of high-tech companies take their lead from engineers," he contends. "We take our lead from our users."

An Wang began to develop his feel for the user back in China. In 1942, at 22, Wang joined the Chinese Nationalist Army and designed a radio that soldiers could quickly learn to operate. Three years later he would be studying at Harvard University. With civil war convulsing his birthplace, he chose to stay in the United States after earning his doctorate in 1948.

By then, Wang had invented a magnetic-core memory for computers—an achievement that greatly expanded a computer's storage capacity and convinced him to strike out on his own in a South Boston loft.

Wang's big break came in 1964 when he invented a desktop calculator that enabled scientists and engineers to work out long formulas with a few keystrokes. This timesaving tool triggered a growth in sales from less than \$1 million in 1963 to \$39 million in 1972.

With the debut of semiconductor technology in the early 1970s, Wang rightly predicted it would be only a matter of time before calculators would become so cheap that they would be commonplace, even given away as premiums. In a surprise move, he decided to abandon the calculator business to do for typewriters what he had done for calculators, namely, make them efficient, timesaving office tools.

After a few false starts, Wang introduced its revolutionary word-processing system. Outdistancing the competition, the product quickly became a standard fixture in America's offices. Along the way, sales zoomed, crossing the \$1 billion revenue mark in 1982 and sending the firm's stock to an all-time high of \$42.50 a share. (It has been trading on the American stock exchange in the range of \$11-\$19 a share.)

Now Wang is attempting to shed its image as an outdated word-processing company by pushing its enhanced line of minicomputers that connect to other manufacturers' equipment and a new product that uses scanners to capture



PHOTO: RICHARD HOWARD

images and feed them to optical disks, the next generation in computer-storage technology.

A highly practical man, Wang has always eschewed the latest management fads in favor of basic common sense. Neither genius, magic nor an MBA lie behind his success, he asserts, just the application of the Confucian virtues of simplicity, adaptability and moderation.

When he decided the company should stop making calculators, Wang says, his senior executives were fixed on such things as market share and revenue stream. Wang, however, had concluded that the key issue was that calculators were destined to become commodities and Wang Labs did not have command of the technology necessary to compete in a price-driven market.

After seeing Wang products supplanted by personal computers, Wang is even more convinced that adaptability is what decides the difference between success or failure. "If you put all your energy into one good idea, you don't have anything to follow through

with," he says. "You have to continually think about what you will do next to broaden your company's activities."

Wang has some other advice for managers of growing companies. Try to avoid ceding even limited control of your firm to outsiders, he urges.

Wang says he made one of his biggest mistakes when in 1959 he exchanged a 25 percent interest in Wang Labs for \$150,000 in equity and loans from Warner & Swasey, a Cleveland maker of machine tools.

The alliance caused problems far in excess of any benefits.

For instance, it was an uphill battle to persuade Warner & Swasey that Wang Labs should go public in 1967.

When it did, Wang issued 1.5 million non-voting shares to protect his position as chief policymaker.

The only time he truly feared for his company's survival, Wang says, was when he agreed to let Compugraphic Corporation of Cambridge, Mass., market a Wang-designed-and-manufactured typesetting system. After selling 70 machines, Compugraphic announced that it would start building the product itself—and Wang Labs lost two thirds of its projected revenue for the next year.

Now, with his company back on firmer ground, Wang doesn't hesitate to share the credit for his success. One of the 12 recipients of the President's Medal of Liberty awarded last year to distinguished naturalized citizens, Wang has always felt an obligation to the society that he says "while is by no means perfect," has been "a key element in my accomplishments."

Wang is the first to acknowledge that the competitive arena in which he now finds himself is much different than the one in which he made a name for himself. When he first introduced his word processors, his competition began and ended with IBM; in 1987 IBM just tops a list of many formidable rivals. But the good Doctor is confident that he'll be able to maneuver Wang Labs into a front-line position in the computer industry. After all, he reminds you, the odds against him when he started, and then building his company to the size it is, were a lot worse than the odds facing him today. ■

Editorial

Judge us on our 1987 legislative record, said Democratic leaders. They are now wondering whether that was such a good idea.

Democratic Jubilation Has Given Way To Sober Reality

Democrats were understandably jubilant when the 100th Congress convened last January. They were in a majority in the Senate for the first time since 1980 and had strengthened their control of the House of Representatives.

The road was clear, party leaders said, for enactment of economic and social programs that had languished during the six years of Republican control of the Senate.

Sen. Robert Byrd (D-W.Va.) returned to the Senate majority leader's post he had surrendered after the GOP won control of that body in the Reagan landslide of 1980. Rep. Jim Wright (D-Tex.) was elected Speaker of the House to replace Thomas P. O'Neill (D-Mass.), who had retired.

The two leaders saw the Democratic-controlled Congress as a vehicle for resolving the nation's most pressing problems. "The American people voted for change, and change they shall have," Byrd said in a floor speech marking the opening of the 100th Congress. Wright called for steps to halt what he called the economic "retrogression" under way in the country.

Both leaders pledged strong action to reduce the budget and trade deficits that were hampering the economy, to improve the educational system, to resolve the farm problem, to restore the nation's basic industries to health and to achieve a foreign policy that would resolve issues ranging from nuclear-arms control to terrorism.

The party's leaders and its emerging crop of White House hopefuls saw 1987 as an opportunity to set the political stage for the 1988 presidential election. They would build a record that would convince voters that the Democratic Party could provide the leadership the nation needed.

The majority party in both houses of Congress did indeed seem to be in a take-charge mode as the 100th Congress began. Its members swiftly passed long-pending bills for financing construction of sewage-treatment plants and highways and were able to



PHOTO: BEN ALEXANDER/FOLE

rally sufficient Republican support to override vetoes by President Reagan. He had rejected both measures as excessively costly.

In the changed political environment on Capitol Hill, organized labor was able to put its wish list into legislative form.

The Democratic pledge to deal effectively with budget deficits has been reduced to a quest for more taxes. Trade legislation is still being drafted, and it remains to be seen whether the final version will achieve the goals set last January. Democratic hopes of making major significant changes in foreign policy now appear to have come down to the question of whether to cut off military aid to the Nicaraguan contras. Managing global events, members have discovered, is not easily achieved through prolonged deliberations designed to accommodate the conflicting interests of many points of view.

Answers to the farm problem, development of an effective education policy within available resources and solutions to a wide range of other national concerns also remain elusive.

For Speaker Jim Wright (left) and Senate Majority Leader Robert Byrd, victory in last year's elections has turned bittersweet.

And, as the financial markets were battered late in the year, Congress was unable to provide the assurance that public policies sufficient to restore confidence would be forthcoming.

The Democratic leadership promised a legislative record that would prove the party's ability to give the nation the leadership it needs, leadership they assumed would be embodied next year in a victorious presidential candidate.

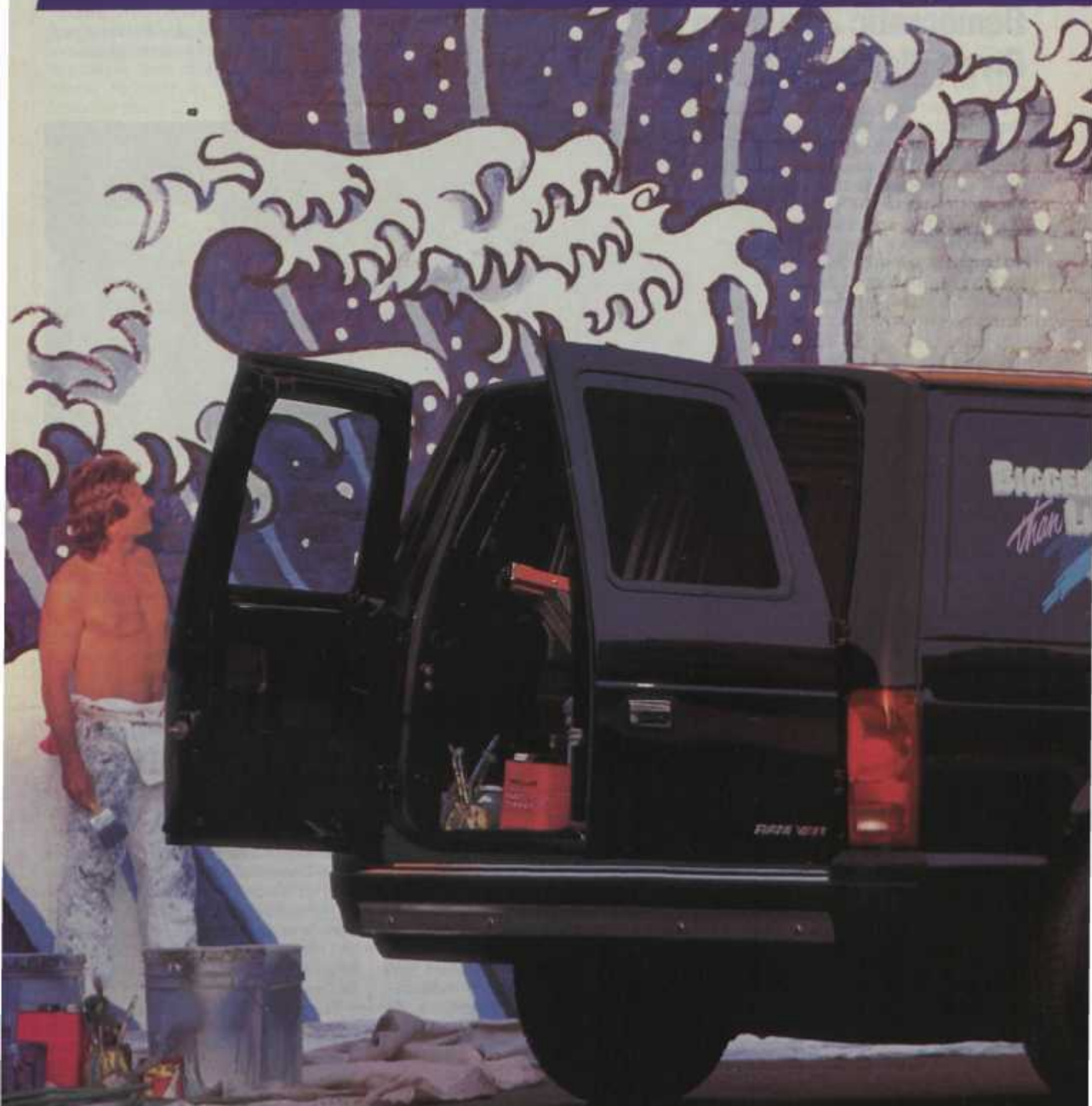
But a member of the party's rank and file was more guarded in his outlook. Rep. Philip R. Sharp (D-Ind.) said: "The Democratic Party's success in the next presidential election will depend on whether people perceive that the party was able to bring things together and address some of the country's problems. It's going to be a major test for us Democrats."

The results of that test are becoming increasingly obvious as the 100th Congress nears its halfway point. They show that the majority party in Congress still has a long way to go if it hopes to forge a record to offer voters next year as justification for electing its candidate for president. ■

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